

THE **NEW** EUROPEAN

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- Is the EU a free trade continent?
- The strategic relevance of trade in the TTIP era
- Commissioner Vestager on the importance of enforcing competition

FREE TRADE AND THE EU'S ROLE IN AN INTERCONNECTED WORLD



In Varietate Concordia

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Giovanni Collot
Editor in Chief

The value of free trade

THE CONTEMPORARY POLITICAL debate has cast on the stage of Eu politics what might look as an unlikely protagonist: free trade, with its limits and benefits. The negotiations surrounding the Transatlantic Trade and investment Partnership, best known as TTIP, have generated some controversy among the public in all EU Member States: on the one side those who denounce the treaty in the making as a possible danger to European standards and ways of life; on the other, those who defend it as an engine for growth, that will connect two of the biggest economic blocs in the world. Among these two positions, a variety of opinions has blossomed: the opportunity of free trade is as never before at the centre of the public debate.

It is not the purpose of this brief article to establish the correctness of one opinion or the other. But the rediscovered relevance of free trade has to be welcome: free trade is after all one of the defining economic, philosophical and political issues of our times. The idea that increasing exchanges among countries would lead to more peace and stability, first elaborated in the 18th century, has been a driving force of the global order, as it developed in the 20th century around Western ideals and values. The establishment of the Eu itself stands as one of the best realisations of this somewhat utopian view: it has been based, since its inception, on the creation of a Single Market area, eliminating the barriers to trade between Member States. It was the reality of an open market that, in turn, gave way to a closer political union. This has contributed not only to decades of growth for the European economy, but it has also influenced the way the Eu looks at the world.

In the meantime, free trade has proven its value not only as a vehicle for economic growth; it has become a mantra and a tool. A mantra, in the sense that it has come to represent a core, almost unquestionable, component of how the Eu perceives itself. And a tool, because the Eu-

ropean Union has started to use trade as its favourite instrument of its projection abroad. The proliferation of Free Trade Agreements (FTAs) with both developing and developed countries is the most striking example of Brussels' ambition to contribute to the establishment of a rule- and value-based world order.

Nevertheless, recent developments have raised more than one question. The economic and financial crisis has shown the limits of free trade as growth enhancer. On the other hand, the emergence of the so-called BRICS and other developing countries is creating a more multipolar world, putting into question the fundamentals of the current free trade consensus: are they proposing new, alternative models or will they fit into the present one? And what could the Eu's role be in such a transformed order?

This issue of *The New European* is dedicated to uncovering the persistent relevance of free trade, both as a value and as a tool of politics. Its aim is not only to understand how the free trade principle has informed the European Union as it is today. It will also analyse why, and in which sectors, trade has still an important role to play, and how it can be fostered for the benefit of all. Indeed, far from being a declining philosophy, investing on free trade opens huge opportunities for the Eu. In a situation in which relations with many of its neighbours, from Turkey to Russia, are cold or tumultuous, trade offers an alternative: it can help engage those countries through the economy instead of politics, creating bridges that otherwise would not be possible.

Free trade has many benefits to unleash. For it to be possible, though, the Eu must put it again at the heart of its actions, both at home and abroad, recognising it as a living value and an important instrument, but not as a hieratic mantra. Which requires especially not to fear debate, but instead to raise it.

A new future for Turkey-EU relations

Dr. Adem Kumcu
President of UNITEE

FEW RELATIONSHIPS in history have been as complex as the one between Turkey and the European Union. After all, Turkey is an important ally inside the NATO alliance, a candidate for the accession to the EU and an important economic hub. Furthermore, more than 6 million Turks live in one of the EU Member States. This connection is not only engraved in history: today Turkey encompasses all the major current international events, from the European economic challenges to the fight against international terrorism and the Islamic State, Energy issues and – last but not least – European identity itself.

Nevertheless, relationships between Brussels and Ankara have rarely experienced as a difficult moment as today. Since 2013 and the Turkish government's response to Gezi Park protests, the political and economic unrest in the country has taken a toll on the accession negotiations started in 2005. The current situation puts us in a position to ask ourselves a question: **how can the relationship between Turkey and the EU be revived?**

Indeed, a quick solution is required. The problem is, at the moment the situation does not look rosy. The EU institutions have followed with concerns the developments in the country: in its Progress Report 2015, the European Parliament showed its concern for the 'backsliding of democratic reforms', warning that Turkey currently does not meet the EU's expectations for a candidate country. The European Commission echoed these concerns, by pointing out how «the government's response to allegations of corruption targeting high-level personalities, including members of the government and their families, raised serious concerns over the independence of judiciary and the rule of law.»

The Turkish government has responded by accusing the EU of 'islamophobia' and looking for alternative diplomatic routes. The most worrying development is the request to join the Shanghai Cooperation Organisation (SCO), in a move that will put Turkey closer to China and Russia. It does not come as a surprise, then, that the already battered accession negotiations have been put on hold.

Does this mean a rapprochement between Brussels and Ankara should be dismissed as a far-fetched dream?

I might sound too optimistic, but I believe the time of desperation has not come yet. Sure, the obstacles are many. Nevertheless, Turkey and the EU are too important for each other, and have too many overlapping interests, not to proceed with some form of co-operation. It is my belief, as President of UNITEE, that cooperation with Turkey should continue where possible, notwithstanding the freeze on the accession negotiations.

The belief is shared by the European Commission. The aim is to keep the collaboration open where possible, by not only focusing on the accession process but trying to support progress in other areas. Among those, I would indicate three that look particularly promising: energy, foreign affairs and security and, most importantly, trade.

a) Energy

Having a secure and **sustainable source of energy** certainly represents one of the main issues for the EU. As such, it offers opportunities for long-term engagement, especially in a time when pipes from Russia have become increasingly unreliable due to the protracted instability in Ukraine. Given its special geographic position, Turkey plays a key role as regional trade hub, bridging European markets to Middle Eastern and Caspian ones. In this sense, a stronger EU-Turkey partnership is clearly desirable for both sides, as has been confirmed by the launching of the High Level Energy Dialogue earlier this year. In this vein, the recent (March 2015) launch of the construction of the Trans-Anatolian gas pipeline (TANAP) has a crucial meaning for Europe, as it shows Turkey's key role in diversifying European gas supplies.

b) Foreign Affairs and Security

The tragic events currently taking place in the Middle East have highlighted even more one fact already known to be true: not only Turkey is the second biggest army in the NATO alliance; due to its position, its history and its resources, it also is a **fundamental geostrategic ally** in many of the crises engulfing today's world. What is more, the current geopolitical crisis in bordering Syria and Iraq, generating the most serious refugee crisis since the Balkan Wars, has Turkey as its epicentre: Ankara is currently hosting 2 million refugees, a num-



Dr. Adem Kumcu

ber that makes Eu countries pale in comparison. In such a situation, it is not only advisable for the Eu and Turkey to work together; it is necessary.

That is why it is a good and promising signal that, after some years of hinting at establishing alliances alternative to the West, finally Ankara has decidedly reaffirmed its belonging to the West and NATO: the first and most resounding example of this has been the decision to join the anti-Islamic State coalition, followed by actions against the Islamic State's position in Syria at the end of July.

It is too early to say whether this repositioning is made to last or is just an opportunistic choice, as the contemporary actions against the PKK in Iraq might suggest. But, all things considered, it is vital for the Eu to sustain Turkey's effort, by reaffirming the common fight against terrorism. Furthermore, far from being the only sufferer from the refugee crisis, the Eu has the moral duty to support Ankara in its reception of its huge number of refugees.

A first step in the right direction, showing how the Eu and Turkey can cooperate on security, has been taken with the entering into force of the Eu-Turkey readmission agreement on 1st October 2014 and the parallel start of the visa liberalisation.

c) Economy and trade

Finally, the area that bears the most promises of positive developments in the Eu-Turkish relationship is

the economy. Turkey finds itself engulfed in a serious economic crisis, in part due to external factors but also connected to political uncertainty, requiring bold reforms: in the short term, to increase the transparency and restore the rule of law, allowing business to regain its trust. And in the long term, Turkey should undergo comprehensive reforms to foster its economic growth in a sustainable way.

The Eu could help provide part of the solution. UNITEE's experience has shown that economic exchanges play a privileged role in bringing countries and societies together. In this respect, few economies are more integrated than Turkey and the Eu's: the Union is the first trade partner for Ankara. Also the opposite applies: for the Eu Turkey represents a key trade partner, providing it with a net revenue of more 20 thousands million Euros a year.

It is exactly in these data that the main path is indicated: integrating economies through trade today can serve as a shortcut for favouring better political relationships tomorrow. Therefore, it is in this spirit that the recent proposal of renewing the 20-year-old Eu-Turkey Customs Union represents very good news. The modernisation would bring new sectors, like public procurement and services, into the agreement, thus allowing it to be more respondent to the needs of today's economy. As a consequence, it will bring about a closer dialogue on macro-economic measures, as proven last January when the European Commission put forward a proposal for a new 'Eu-Turkey Business Roundtable'.

From what has been said so far, it is possible to draw some conclusions and propose an answer to the question of how can relations between Turkey and the Eu be revived. What appears is that results are mixed. If we base our judgement on whether Turkey will soon become part of the Eu, it is clear that many obstacles from both sides are visible to everyone. Much is left to a currently scarce political will to solve these tangles.

Nevertheless, there are still areas for collaboration, made necessary by the strategic mutual relevance of Ankara and Brussels and by the overlapping of both entities' interests. And among them, the single most important action is to increase trade and economic exchanges.

Working together in small steps, towards achievable objectives, will help solve some of the challenges that are currently engulfing the Mediterranean and Middle East region. But in doing so, the Eu should not lose sight of the final objective: accession. Establishing a constant flow of goods, services and ideas will make the transfer of values easier.

In the end, there are no doubts that Turkey belongs to Europe. In the words of Turkish Nobel Prize winner Orhan Pamuk, «I see Turkey's Future as being in Europe, as one of many prosperous, tolerant, democratic countries». Turkey and the Eu both already have the tools to make it happen. They just have to realise that.

This article is based on the speech given by Dr Kumcu at the 25th Economic Forum, Krynica-Zdrój, Poland, on 9th September 2015

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The EU as a Free Trade Continent

Matthias Bauer
ECIPE

The Eu Single Market still experiences a lot of barriers to free trade. To remain a strong player in the global arena, the Eu needs strong political will to proceed towards better integration. Internationalism starts at home.

Is EUROPE a Genuine Free Trade Continent? The answer to this question depends on how we look at commerce within the Eu and trade between the Eu and third countries. Accordingly, replies and rejoinders to this question frequently disembody into a diverse set of views that circulate around two policy areas: first, the Eu's internal market, which is based on the principle of allowing goods and services, alongside with people and capital, to move freely within the Eu. This principle was mentioned for the first time in the 1957 Rome Treaty and it is the fundamental pillar of the Single European Market that was formally created in 1993. Second, Europe's Common Commercial Policy, which is one of the oldest Community policy areas and is rooted in the creation of the European Customs Union of 1968. The Common Commercial Policy is an exclusive competence of the Community and it aims to contribute to the harmonious development of world trade and the progressive abolition of restrictions on inter-national trade and foreign direct investment.

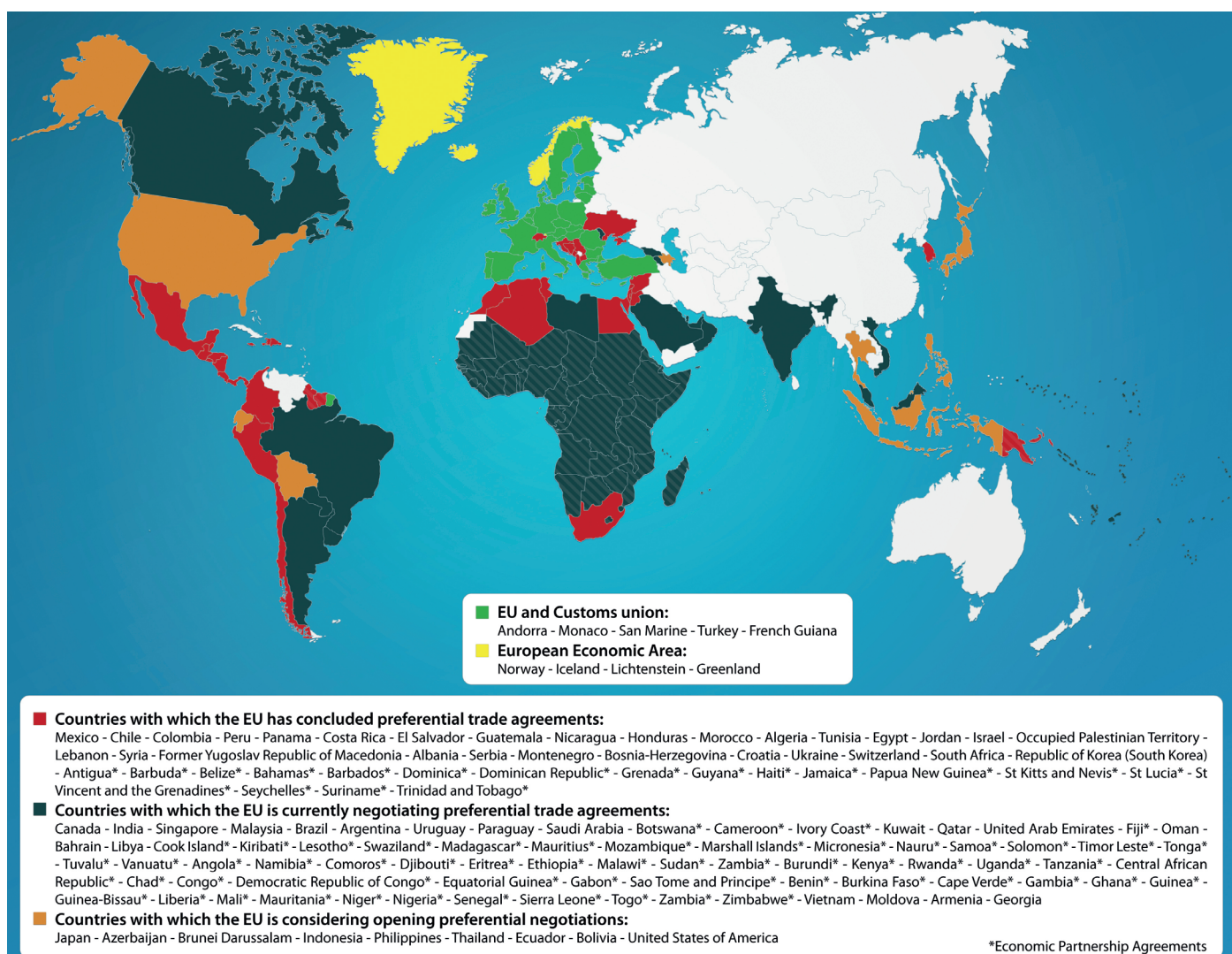
Asked about the existence of genuine free trade within the Single Market, most pro-European politicians would probably pause for a moment before uttering a firm yes. And they would probably top up their affirmative by praising the four freedoms for being a condition sine qua non for economic growth and job creation in the Eu. Hardliners among labour and environmental campaign groups are likely to digress towards a lively discussion about the hazards of free flows of goods and capital. Historians and political

scientists would find it hard to give a clear yes or no vote, but would probably underline the positive correlation between the freedom to trade across borders, a peaceful diffusion of political cultures and the evolution of European integration.

As for the Eu's Common Commercial Policy, individual viewpoints are even more diverse. The multilateral world trade order is complex. The multifaceted nature of the Eu's interests behind negotiating trade agreements earns applause by some vested interests while it raises strong criticism by others. Trade policy is generally considered a powerful tool to encourage economic and social development, but the details can easily turn good intentions into the opposite. The precise impact of the Eu's approaches towards international trade liberalisation is therefore often difficult to discern, reflecting the particular complexity of gauging policies in this area.

We Should Forget about Free Trade, but Strive for 'Easy' Trade

When business representatives talk about international trade and trade policy, they do not necessarily think of social phenomena such as social interaction, cultural exchange, freedom and peace, all of which are closely related to international commerce. They are used to talk about the essence of the industries they are part of and the businesses they carry out. What matters for businesses in international trade



are commercial opportunities, associated risks and market access. For the latter, both small and large European firms spend huge efforts to adapt production technologies, certification processes and products and services to foreign market regulations. This not only applies to trade with partners in non-Eu countries, but still for a wide range of intra-Eu trade in goods and services sectors.

Sure, the four freedoms are the cornerstones of the Single Market. They are indeed essential for efficient cross-border commerce, be it the sale of a car from a German manufacturer to a Spanish household or the appointment of a Greek consultant by a Swedish telecom equipment supplier. Yet, given the state of today's Single Market, most entrepreneurs and industry pundits would nevertheless vehemently deny calling Europe a free trade continent. Business representatives would rather list the myriad of challenges that they face in facilitating daily operations or strategic investments. Measured in terms of tariffs, the EU's internal

market for goods indeed is a success story. Intra-Eu tariffs *de facto* disappeared with the creation of the Customs Union in 1968. Yet, technical barriers to trade in terms of diverse national product standards, domestic market regulations and red tape die only hard among Eu Member States.

These barriers effectively hamper and often even impede firms to trade their goods and services across national borders within the Single Market. A recent investigation commissioned by the European Parliament outlines the costs of 'non-Europe' economic integration in goods and services sectors. Construction and medical devices businesses, for instance, complain about the fact that Member States have not fully implemented existing Eu Directives leaving their markets highly fragmented within the Eu. This is true for a myriad of other markets too, leaving the EU firms to trade significantly more within their own jurisdiction than with other Eu countries. What is striking is the fact that this home bias is considerably higher in the

Eu than in the Us, despite the adoption of a single currency in the majority of Eu Member States.

Services sectors within the Single Market, which account for more than 70 per cent of total economic activity in the Eu, are characterised by even larger deficits in market integration. The Eu's markets for gas and electricity are still highly fragmented due to national taxes and price regulations. As a consequence, household and industry prices for gas and electricity vary widely from one country to another, with significant feedback effects on domestic consumption patterns and production costs. Similarly, national markets for financial services feature multiple barriers in segments such as retail banking and mortgage lending. One of the most controversial issues is the area of professional services, in which national legislation has remained the dominant source of law. Finally, firms and business models comprising the 'Digital Single Market', whose completion is a stated objective of the new European Commission, show numerous barriers in electronic communication services, broadcasting and the treatment of copyrights. But much more importantly, the expansion of the digital economy in Europe is negatively affected by the high degree of market fragmentation in traditional goods and services sectors preventing European digital firms to join up with Us-based digital high-flyers.

The Elimination of Trade Barriers Never Was a Straightforward Task

From a regulatory perspective, the Eu is a managed trade area. Trade among its 28 Member States is restricted by government intervention. Compared to other large trade areas such as NAFTA (the North American Free Trade Agreement) and ASEAN (the Association of South-east Asian Nations), the Eu is actually the economically most integrated region in terms of intra-regional trade flows. Nevertheless, the Eu can still be considered an economic partnership area whose member states, shaped by vested interests, have always been attracted to play national cards. Therefore the Eu will have to follow a long march to align or harmonise national law.

In 1985, the European Commission released a White Paper proposing 300 measures for reducing internal trade barriers and promoted the principle of mutual recognition to avoid systematic European legislation and to ensure regulatory competition of high standards within the Eu. Between 1986 and 1992, more than 280 pieces of legislation were passed to facilitate better access to national markets. However, initial expectations that the internal market would become a catalyst for intra-Eu economic convergence by creating a more dynamic, innovative and internationally (most) competitive economy have not been met. In 2008, for instance, the European Commission identified 24 goods and services sectors that show characteristics of market malfunctioning. The Commission recognised that many Eu Directives lack adequate implementation, and that they are sometimes not

suitable to achieve intended objectives. In addition, the Commission highlights barriers in many services sectors that are often tenacious and difficult to address effectively by European legislation due to ingrained sensitivities at Member State level.

The elimination of technical barriers is still not a straightforward task, although the Eu can draw on the experience of a 50-year march towards stronger economic integration. Since the 1960s, the core objective of the European community was to create a level-playing field for intra-European commerce embedded in a regulatory landscape reflecting common public interests. The legislative approaches towards deeper economic integration, however, differed considerably over time. Until the mid-1980s, Eu policymakers' ambitions for economic integration were driven by the assumption that the only way to align the free circulation of goods with broader public interests was to impose mandatory harmonised technical specifications on products. Yet, this practice turned out to be slow and burdensome given the extensive variety of products circulating in developed economies.

This perspective changed after the *Cassis de Dijon* ruling in 1979 when the European Court of Justice defined the 'mutual recognition principle'. What is often argued to be the most important invention of modern Europe stipulates that products that are lawfully produced in one Member State cannot be banned from sale on the territory of another Member State, even if these products are produced with different technical specifications. As a consequence, the Eu shifted towards an approach of enhanced mutual recognition from the mid-1980s onwards. Accordingly, the Eu limited the scope of harmonisation to the definition of 'essential requirements' for the sake of protecting public health and to address environmental safety concerns. This approach allows companies to choose a certain set of rules to comply with within the Eu, offering them a high degree of flexibility.

It also, however, became a source of several disputes among Member States due to lax national enforcement at the stage of certification and after products entered the market, both of which were argued to cause unfair competition. As a consequence, the Eu set out additional legislative measures in 2010 aiming to harmonise the system of national conformity assessment bodies as well as accreditation and assessment procedures. On the bottom line, the Eu Commission continues to enforce national implementation of community law and to improve the existing system of regulatory cooperation in the Eu in order to secure higher standards and less competitive distortions.

Internationalism Starts at Home

As a result of a more comprehensive and unified *acquis communautaire*, the progress made in economic integration within the common market enhanced the EU's reputation and bargaining power in negotiating international trade agreements. The acceptance of the

From the mid-1990s, the Eu became a strong proponent of new multilateral negotiations in which it pushed for internationally binding rules on the so-called Singapore issues, i.e. non-discriminatory rules in trade and investment, trade and competition policy, transparency in government procurement, and trade facilitation. Due to the resistance of many developing countries to commit to such rules, these issues have largely been dropped from the multilateral agenda. As a consequence, since the beginning of the 2000s both the Eu and the Us more intensively strived for multilateral and bilateral free trade agreements.

teral free trade agreements, the Eu's stance towards trade liberalisation remained largely liberal. Although the Eu is still defensive about granting market access in agriculture and insists on the recognition of geographical in-dications, it remains offensive in pushing for reduced tariffs, more efficient trade facilitation, mutual recognition and regulatory cooperation at international level, fair rules for foreign investment, and the liberalisation of services trade.

As a promoter of market-based principles, the EU had an impact on the current state of the world trade order and many bilateral trade agreements between third countries. Yet, despite its own progress in the conclusion of free trade agreements with many countries over the past decades, the EU is at risk of lagging behind in determining the future pillars of global trade governance. With all eyes on TTIP, which the EU negotiates with the US since summer 2013, proponents and opponents of this agreement frequently ignore that the EU is neither part of TPP (the Trans-Pacific Partnership Agreement) nor RCEP (the East-Asian Comprehensive Economic Partnership).

The world of trade negotiations has already changed. As Pascal Lamy convincingly argues, trade policymaking in the Eu and the Us has shifted from protection to precaution. The obstacles to trade liberalisation do not stem from protectionist producers and interventionist governments anymore. These days, trade liberalisation is hampered by national citizens claiming for protection from the various risks they associate with open markets. The recent outcry around TTIP negotiations remarkably shows how fears and emotions impact on trade negotiators. For the Eu to remain a strong and credible player in advancing both Europe's internal economic integration and the integration with third countries, it must more than ever before credibly demonstrate the benefits of its endeavours. Unlike in the past, Eu trade negotiations require political engagement on the highest level. National political elites must be aware of the fact that the fulfilment of the European Single Market is far from being achieved, and that it requires strong political support to make progress in areas where national sensitivities still prevail. In other words: **internationalism starts at home.**

GLOBAL FLOWS AND GLOBAL GROWTH

Laura Tyson & Susan Lund

Economies are increasingly connected. This is good news: interconnection has been proven to generate economic growth.

A GROWING SHARE of the world's economic activity involves cross-border flows. But just how interconnected is the global economy? How are cross-border flows among activities, sectors, and countries changing? How do national economies rank in terms of their cross-border flows or *interconnectedness*? And what are the implications for business and policymakers?

A May 2015 report from McKinsey Global Institute addresses these questions by analysing the inflows and outflows of goods, services, finance, people, and data and communications for 195 countries over the past 20 years. Both aggregate data and micro examples confirm that the world has become more tightly linked, with cross-border flows increasing in scope and complexity – and embracing a larger number of countries and participants within them. Despite a significant contraction from 2007 to 2009, resulting from the deep global recession, the combined value of financial flows and trade in goods and services was 36% of global GDP in 2012 – 1.5 times higher than in 1980.

The report also confirms that greater openness to global flows has been a significant source of economic growth for individual countries and worldwide. Overall, the research estimates that global flows have contributed 15-25% of global growth each year, with more interconnected countries receiving 40% more of the growth benefits than less interconnected ones. This is consistent with economic theory: interconnectedness fosters growth via productivity gains from specialization, scale, competition, and innovation.

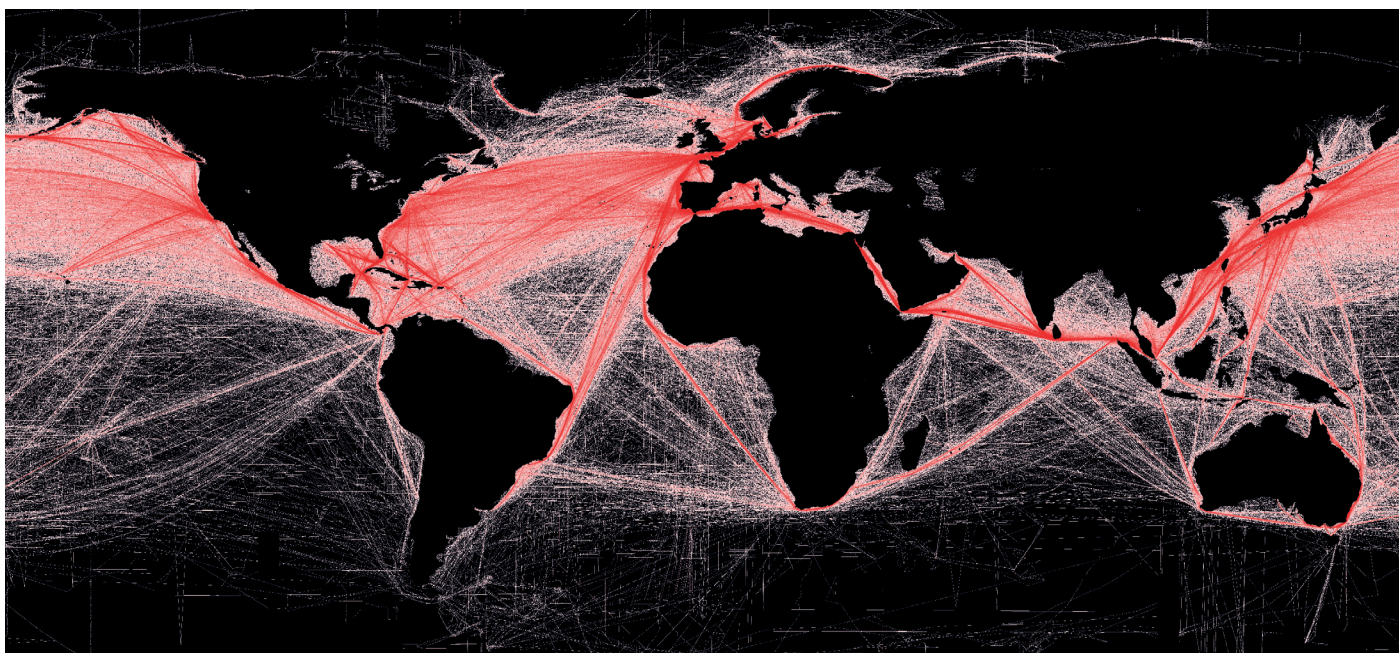
Cross-border flows of goods, including commodities, remain the largest category, growing at 11% per year during the last decade and surpassing their pre-recession peak in 2012. Today, more than 35% of goods cross national borders. Cross-border flows of services

have also recovered to pre-recession levels and have been growing rapidly at 10% per year since 2002. Nonetheless, although services account for roughly two-thirds of world GDP, cross-border flows of services are less than one-quarter those of goods.

Cross-border flows of finance are still 70% off their pre-recession peak, yet even at today's depressed levels they account for more than one-third of all global financing. By contrast, the cross-border flow of people, measured by the percentage of people living outside their country of birth, is small, hovering around 2.7% since 1980. But cross-border movements of people for short-term purposes – tourism, work-related travel, and education, for example – have been growing by 3.5-4.8% annually during the last decade.

And cross-border flows of data and communications have exploded, expanding by more than 50% per year since 2005. International telephone minutes have doubled, and cross-border Internet traffic has increased by 1.800%. Migration flows may not be gaining as a share of the world's population, but as a result of digitization, people are more interconnected than ever before.

Digitisation is also transforming cross-border trade flows in three ways: the creation of digital goods and services, such as entertainment and products manufactured by 3D printers; so-called 'digital wrappers', including tracking devices for physical flows; and digital sales platforms, such as eBay and Alibaba. On eBay, for example, more than 90% of commercial sellers export products to other countries, compared to less than 25% of traditional small firms. Digital technologies are boosting global flows and competition, enabling even the smallest companies – and even individual entrepreneurs – to be 'micro-multinationals'.



Global Commercial Shipping Routes. Source: Wikimedia

Knowledge-intensive flows requiring relatively high levels of human capital and research and development are now larger than labour-intensive, capital-intensive, and resource-intensive flows and are growing faster than all three. Flows of low-value, labour-intensive goods like apparel are declining as a share of global flows, while flows of R&D-intensive products, such as pharmaceuticals and business services, are gaining share.

By 2012, knowledge-intensive flows accounted for nearly half of the combined total value of flows of goods, services, and finance. This trend is an advantage for developed countries, which account for two-thirds of knowledge-intensive flows. China is the exception, claiming the second-largest share of flows (after the United States).

Traditional measures of an individual country's global interconnectedness compare the size of its global flows to its GDP. According to these measures, smaller countries with smaller domestic markets appear to be more interconnected than larger ones. But this approach is misleading, because it does not consider a country's share of global flows. The McKinsey report's index of global connectedness remedies this shortcoming by considering both the size of a country's global flows relative to GDP and its overall share of global flows.

The MGI Connectedness Index shows Germany, Hong Kong, and the US ranking first, second, and third, respectively. But some major economies fall well behind. Despite strong exports, South Korea and Japan rank 20th and 21st out of 85 countries, because they lag on immigration and cross-border

Internet traffic. China, which ranks 25th, has a strong export engine and large capital inflows but ranks low on people and data flows.

On average, emerging market economies rank lower than advanced economies, but several emerging market economies – including Morocco, India, Brazil, Saudi Arabia, and China – have improved their ranking significantly since the mid-1990's. Today, emerging markets account for about 38% of global flows, triple their share in 1990.

Yet a 'digital divide' between developed and emerging economies persists in both data and communication flows and knowledge-intensive flows – and that gap does not appear to be closing. Emerging economies produce 40% of global output, and are home to 80% of the world's population, yet they account for only 24% of cross-border Internet traffic.

The economic gains of interconnectedness are significant, but so are the challenges. To capitalise on the opportunities of digitization and the shift to knowledge-intensive trade, countries must invest in talent and infrastructure; reduce barriers to cross-border flows of people and information, without jeopardising their citizens' privacy and security; and expose their producers to robust foreign competition while ameliorating the resulting costs of disruption for their communities and workers. If the gains from globalisation are not widely shared, political support for greater openness to global flows will decline – as will the economic benefits that such flows create.

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To TTIP or Not to TTIP?

Olivier Hinnekens
European Movement Belgium

TTIP is an important case of the potential benefits of free trade. For them to be reached, though, civil society should be included in the debate.

WITH ALL THE commotion in the European Parliament concerning the TTIP vote - notably increasing criticism and campaigns from certain civil society actors against trade agreements in general and the TTIP negotiations in particular - it is important not to lose focus and to look beyond the controversy at what is really at stake for civil society and Europe in the current round of negotiations.

It would be misplaced for proponents of working together at a European and global level to be opposed out of principle to a transatlantic trade agreement which could bring about great economic benefits on both sides of the Atlantic. In the same way as borders should not pose an insurmountable obstacle to the principle of free movement, we should not be supporting division lines in trade, if all sides benefit from more openness.

Naturally things are never quite that simple in the real world. One persons' trade barrier is another persons' vital regulation on the protection of the environment, food safety, consumer choice... Even when the TTIP negotiators assure us that the EU and US share the same regulatory objectives, simply achieved through differing methods, it is important that these aspects are considered carefully. We no longer live in an era where decisions of this magnitude should be taken behind closed doors. An agreement on TTIP should not be decided over the heads of people on either side of the Atlantic. Trade is not the aim in itself, but a tool to achieve

prosperity, and thus it should be backed by societal consensus.

On this issue it seems that Brussels is at least listening. Trade Commissioner Cecilia Malmström has stated that the EU will «be even more transparent, so we can show clearly what the [TTIP] negotiations are about and de-mystify them. We'll use this as a basis to engage further with stakeholders and the public.» This promise creates a unique opportunity to truly intensify the debate by defining a new negotiating space that engages with civil society.

The fact that more than 2,4 million European citizens signed the 'no TTIP' ECI initiative demonstrates a growing unease with the direction of these trade talks among a large segment of the European populace. In addition, the suspension of the vote in the European Parliament in June gave a very clear signal that passing TTIP is no walk in the park. Ever since the beginning of the negotiations, MEPS have been split over the provisions for an Investor-State Dispute Settlement (ISDS) mechanism, perhaps the most controversial matter in the TTIP discourse. They finally called for a mechanism which would be «subject to democratic principles and scrutiny» led by «publicly appointed, independent professional judges [in] public hearings». The importance of high levels of protection of data and health and safety standards were also emphasised, along with the plea to exclude public services from the deal. The amended report of the International Trade Com-



mittee, including the above mentioned provisions, was finally passed on 8 July 2015, demonstrating the Parliamentary support for the deal (preceded by the Us Congress' Trade Promotion Authority Bill passed in June), but the disturbance caused wide public criticism and provided TTIP opponents with extra ammunition in their ongoing fight against the agreement.

Among all the debate and controversies on the technical aspects of TTIP, it is easy to neglect the bigger picture and forget to look at other aspects, such as what such an agreement could mean for the Eu foreign policy. Trade can support security and global development, and, in terms of soft power, it can serve the purpose of projection of European values on the global scene. If the negotiators manage to reach a people-friendly transatlantic deal, the final outcome could serve as a tool supporting the values that the Eu shares with the Us – democracy, rule of law, free markets and human rights. This particular instance of trade-foreign policy fusion could potentially create a new, precedential geopolitical situation and open new opportunities. But we are not there yet.

Citizens should be involved in the important decisions on economic and trade policies and have an opportunity to be heard and contribute. We no longer live in an era where such things can just be imposed on the silent masses.

And in all fairness, good first steps to involve the citizens and civil society in the process have already been taken. The Commission deserves credit for

its efforts in response to the public enquiries. But there is still space for improvement, if this deal is to succeed.

Civil society groups that are currently at the forefront of opposition to TTIP, claiming that the treaty is a Trojan horse, which will smuggle unwanted health and agricultural implications into Europe, and that express concerns regarding the undermining of democratic rights and legislation, should be involved in a constructive dialogue. Allowing concrete integration of civil society stakeholders on critical issues, such as ISDS, whereby proposals can be put on the negotiation table, would create far broader public support and legitimacy in the process.

The institutions should work with civil society to make the process better and achieve the best possible outcome, so that civil society can help gain support for the final outcome. This can be achieved through facilitating the active participation of citizens and civil society organisations in a democratically reconstructed TTIP negotiation process.

So this is not a call to just accept what is now on the table, nor is it a call to reject out of principle what is being negotiated. As civil society we want to help get as good a deal as possible which will benefit everybody on both sides of the Atlantic. If we get that chance and we manage to get a good agreement, we will also assume our responsibility by backing our politicians to help get the final agreement ratified in the European Parliament and the national parliaments when it comes up for a vote.

Exporting values through trade

Interview with **Annick Masselot**, University of Canterbury Christchurch

THE TFEU, THE TREATY on the functioning of the European Union, states it pretty clearly: its Article 21 mandates the European Union to foster its values (democracy, the rule of law, social rights, gender equality, etc.) in its external relations. In this context, trade has an utmost importance. Since it is one of the few tools of exclusive Eu competence, it is often used to deepen or build relations with third countries, through the signing of Free Trade Agreements (FTAs). Can thus trade be a tool to spread the Eu's values? In other word, does trade have a distinct political role? And is the Eu able to use it effectively and consistently?

To find an answer to these questions, The New European met with **Dr Annick Masselot**, Associate Professor of Law at **Canterbury University, Christchurch** (New Zealand).

According to official declarations, the Eu increasingly looks at itself as a value-based actor. What implications does this have for its projection abroad?

Indeed, the Eu looks at itself as a value-based actor. This view has been the most successful when dealing with ACP countries (Africa, Caribbean and Pacific), which are less powerful, economically speaking. On the other hand, the result is a bit more mixed when the Eu is dealing with Asian countries. There has been a shift of power in recent years; the Asian region has been growing quite fast in economic capacity, which has led to an increase in political confidence and standards of living. In general, Asian countries are very aware of their potential. A lot of them have established their own normative agenda, which is quite independent from the Eu's message; therefore, there is some tension in the negotiations between Asia and the Eu. Normally, it has been easier for the Eu to promote its values when it has been closer to home: for example, the candidates to Eu accession have to com-

ply to those values, as do those in the Mediterranean area. But as the distance from the Eu increases, it becomes more difficult to spread the values, leading to political and economic imbalance.

The Eu, therefore, has to change the ways it normally promotes its values. A shift is necessary, away from conditionality to socialisation, persuasion, emulation, all aspects that seem to be more relevant when talking about countries such as Asia or South America. Another problem is that the Eu is very Eurocentric. It is very difficult to talk about the Eu as a monolithic entity, but in general we can say that sometimes we see a lack of consideration for the other country's point of view. This is why, while dealing with Asian countries, the Eu has met some resistance. Where there is no import of values, there is no export of values: and since the Eu is not a military power, but a rule-based one, if it cannot fulfil its role it will be weakened.

In this regard, how is it possible to reconcile trade, which should be a merely economic aspect, with the requirements of value promotion?

I do not consider the economy as a neutral factor: it is always coloured by very cultural aspects. The economy and value promotion are not mutually exclusive, they can work together. The problem is how. In this, we see two sorts of barriers. The first one is structural: the way the Eu is structured, with distinct DGs, each one going its own way. Although we do have value mainstreaming as a general directive of the Eu's external action, what many observers have noticed is that DG Trade has very little acknowledgment of this sort of value promotion. A second barrier is that there is a resistance from third countries. Again, I insist on Asian countries, not willing to have value obligations inserted into trade negotiations. I think understanding this starts with recognising that the economy is a human activity and is tainted by our view, our culture, our perception of how the world is organised.



What values, in your opinion, are guiding the Eu's global activity, especially in the realm of trade policy? Can we talk about a 'trade diplomacy'?

There is a case in which the Eu has been pretty successful as far as value mainstreaming is concerned: in eradicating the death penalty. This has been quite a simple message that has worked well around the world, and is based on one of the core human rights promoted by the Eu. But generally speaking, when I look at what are the values that the Eu promotes, I would say that the main ones are social values. We do have in the TFEU, the Treaty defining the functioning of the Union, a part that requires the Eu to foster values in its external relations. In that part, article 8 requires value mainstreaming while article 9 gets more specific, requiring the mainstreaming of social policy. Therefore, I think that generally, when we look at what the EU is doing, the promotion of social norms is quite important. This is also reinforced by the ILO-Eu strategic partnership framework, according to which the Eu urges its trade partner to sign the ILO convention as part of its trade negotiations.

Concerning the concept of 'trade diplomacy', we see that the Eu is not in a strong position anymore while negotiating. I would say it is not the values themselves that are in crisis, but what other countries criticise is their exporter. Very often the Eu is seen as an imperialistic actor. Furthermore, free trade agreements are seen by many countries as not the ideal place for social clauses and transfers of values. The Eu has to negotiate the inclusion of the social clause in its trade negotiations and, in doing so, it has to keep an economic advantage because normally the third countries do not want that kind of clause. So, in order to push the third country to include the social clause, the Eu has to give up some economic advantage. This really gives a price to values.

When talking about trade as a political tool, one of the first things that come to mind is the practice of economic sanctions: can they be considered as a successful tool to impose European values?

Also in this case, the main variable is the country's economic power: there is a recent example in Iran, but



Dr Annick Masselot

« We have to start recognising that the economy is a human activity and is tainted by our views, our culture, our perception of how the world is organised »

there have been other cases in the past where the general system of preference was applied, such as in Pakistan, North Korea and Myanmar. In truth, those cases are quite different from classic free trade agreements: it was the Eu external policy that would grant concession to developing states to access the Eu market. But their effect is proven: in Pakistan, for example, in 1995 there was a widespread phenomenon of child labour. The European Parliament started an investigation and the European Commission talked about a ban on import, in order to coerce the introduction of new policies on child labour. At the end there was no implementation of bans, but the Pakistani government introduced new legislation against child labour. So, what we see is that when the Eu is in a position of power, it is possible to coerce the imposition of those values. I am not sure that then on the ground it works: the new legislation in Pakistan did not work really well, but at least the policy made Pakistan take some steps. Also, the government had to report to the European Commission about the implementation of these policies, which was pretty intrusive.

As part of your research, you focus on gender equality: do you think that the Eu is doing enough in fostering it in the countries it deals with?

The short answer is, no! Particularly in relation to trade, it has not worked pretty well. In one of my papers I talked of gender-free trade agreements. This is due in part to the lack of gender mainstreaming within Dg Trade, due to a scarcity of time and trained personnel. This is really the basic internal failure of the Eu. But it is more than that: gender equality is pretty well incorporated into development, but there seems to be no spillover from development to Trade despite the fact that the Eu is claiming that actions should be coherent between policy sectors. There is the support of the European Parliament, but it is not much more than symbolic. So yes, there is a substantial failure in mainstreaming gender in third countries.

Is there a difference of approach with development cooperation as a conditionality tool? Which one of the two approaches do you think is more successful?

By definition, when the Eu is working on development cooperation, it is in a position of economic power, therefore I think it is easier to have conditionality tools. However, in development aid there is a war of competing countries and actors. For example, China is quite often providing aid without asking for the implementation of values, contrary to the Eu's practice. So we find a situation where in

theory, it is easier for the Eu to add conditionality in its development policies, but at the same it is becoming more difficult because there are countries that are not requiring this conditionality to give aid. I am not sure one is working better than the other, to be honest. It is true that in development, there are more agencies and Ngos that are already trained in those values, whereas in trade there is nobody who is even interested or aware that they should be transferring values.

How is the interest of the Eu to proceed as a 'rule-based' actor perceived by other countries?

If we look at the trade negotiations between the Eu and India one would think it is an easy feat: they are two democracies, sharing the same values. Even when the Eu deals with Canada or Australia, there should be no complications: those are democracies, there should be no issues of having a debate around the values of the rule of law and human rights. But the truth is, we see a lot of resistance, particularly from India but also from Canada, Australia and New Zealand. It is not straightforward. There are a lot of countries, for example, that argue that the Eu insistence on those values reflects protectionist thoughts. There are other arguments that the insertion of values in trade negotiations is about curtailing the developing states' competitive advantage in certain industries, because it reduces the outsourcing of jobs and the use of low-paid workers such as women and children. There is also a lot of suspicion that the linkage between trade and social issues promoted by the Eu is, in the end, about giving an unfair advantage to the West.

During our research on India, we looked at who was contesting the trade negotiations. What we saw is that basically everyone is against it. Even civil society claims that enforcing labour standards

could increase labour market inequality and therefore shift a significant number of jobs towards the informal market. It is important to understand the reasons behind other countries' opposition to including values into trade negotiations. I feel that it is not so much about the values themselves, it is about how they are transferred and who is leading the conversation. There is a fear from a number of countries that the Eu might use the values mainstreaming to gain advantages.

Nevertheless, we also came across areas where the transfer has been quite positive. In Malaysia, for example, the Eu was insisting that some ILO conventions be adopted, and so the government looked into why those conventions had not been implemented yet. They reached the conclusion that they had a very old law, which prevented accession to the ILO convention. The law was not being applied anymore, so the Malaysian parliament repealed it and was then able to sign up to the ILO convention. That kind of debate between the Eu and Malaysia, which at times was lively, brought to light this old legislation that prevented the country from implementing the ILO convention.

The Malaysia case shows that negotiations do not always have a negative outcome. But what it also sheds light on the need of a change of perspective: the Eu has to recognise the diversity of other countries' opinions. The Eu is based on the rule of law, which implies that everything has to be written down on paper. This does not necessarily happen in other countries: their legal systems might be based more on negotiations and discussions. In this regards, looking at global gender statistics is pretty revealing: the Eu is not doing very well in that regard when compared to Asia or South America. Those countries are asking the Eu, «why are you the leaders in these negotiations, since you are not better than us?». There is still a constant sense of colonialism on the background.

The Diaspora Goldmine

Ricardo Hausmann

Diasporas are a resource for their home countries. Not only because of remittances: by creating transnational networks, they create new ways for trade.

Many countries have substantial diasporas, but not many are proud of it. After all, people tend not to leave a country when it is doing well, so the diaspora is often a reminder of a country's darker moments.

El Salvador, Nicaragua, and Cuba, to cite three examples, had more than 10% of their native population living abroad in 2010. And this figure does not take into account their descendants. The bulk of this migration happened at a time of civil war or revolution. In other places, massive outmigration occurred in the context of political change, as in Europe when communism collapsed.

The relationship between diasporas and their homelands often encompasses a broad palette of sentiments, including distrust, resentment, envy, and enmity. Colloquially, people describe a bout of emigration as a period in which a country 'lost' a certain proportion of its population.

But people who leave a country have not disappeared. They are alive and socially active. As a result, they may become an invaluable asset not only to their country of destination but also, and importantly, to their country of origin.

One important connection is remittances, which add up to some \$500 billion a year worldwide. The largest recipients are India, Mexico, and the Philippines. For countries such as Armenia, El Salvador, Haiti, Honduras, Jamaica, Kyrgyzstan, Lesotho, Moldova, Nepal, and Tajikistan, expatriates remit the equivalent of more

than one-sixth of national income – an amount that often exceeds exports. And this money can do a lot of good, as the World Bank's Dilip Ratha has highlighted.

But a diaspora's potential economic importance goes well beyond remittances. As the late historian Philip Curtin documented, from the beginning of urban life, millennia ago, trade typically involved networks of co-ethnic merchants living among aliens. Greeks, Phoenicians, trans-Saharan traders, the Hanseatic League, Jews, Armenians, overseas Chinese, and the Dutch and British East India Companies organized much of world trade through such networks. Although these alien traders were sometimes politically powerful in the host countries, they were often weak and faced discrimination.

The economist Avner Greif argues that these co-ethnic networks' durability and resilience throughout history reflects their ability to enforce contracts at long distances when the existing institutional framework could not do so reliably. They could establish trust between exporters and importers because they could punish opportunistic behaviours. For a tight-knit community, reputational costs and other forms of social punishment transcend geography: not paying for goods might mean not being able to marry your children well.

Legal institutions have since evolved to facilitate impersonal trade. Exporters and importers no longer need to know one another, because they can write a contract that a court will enforce.



And yet the impact of co-ethnic networks may well be as important as ever. As Hillel Rapoport of the Paris School of Economics and his co-authors have shown, controlling for other determinants of trade, countries trade more with, and invest more in, the diasporas' home countries. In recent work with Dany Bahar, Rapoport has also shown that countries become good at making the products that their migrants' home countries are good at making. I interpret these results as the consequence of tacit knowledge or knowhow. To do things, you need to know how, and this knowhow is mostly unconscious. After all, most of us know how to ride a bicycle, but we are not really aware of what our brain does to achieve that feat, or how it develops that ability through practice.

This knowhow moves geographically in the brains of those who possess it and is transferred to others at work. That is why ethnic cuisines diffuse through diasporas, not cookbooks. And it may be why economies with more diverse sets of migrants perform better. Also, return migration is often an important source of new skills for a country. In ongoing work, Ljubica Nedelkoska of Harvard's Center for International Development has found that the wages of Albanians who never left tend to increase when migrants return home.

Evidence of the importance of diasporas is everywhere, if you care to look. Franschhoek (French corner in Afrikaans) is a beautiful valley near Cape Town settled by Huguenots in the late seventeenth century. That is why, to this day, wines are made there.

Likewise, Joinville is a southern Brazilian city settled in the late nineteenth century by relatively unedu-

cated Germans. Because of the cultural links they and their descendants have maintained with the mother country for more than 120 years, the city excels at advanced manufacturing of products that had not been invented when the migrants came. Morocco is full of French-language call centers that get their contracts through a cousin in Paris.

East Asian industrialization exploited the links created by the network of overseas Chinese. India's high-tech industries were to a large extent created by returning migrants and are deeply connected to the diaspora. Israel is an entire country created by its diaspora, and its thriving high-tech sector, too, has benefited from sustained ties. By contrast, many Latin American countries have substantial diasporas abroad, but few equivalent success stories.

A country's diaspora, and the diasporas it hosts, can be a huge asset for its development. Diasporas are not gusanos or worms, as Fidel Castro refers to Cubans abroad. They are a channel through which not only money, but also much tacit knowledge, can flow, and they are a potential source of opportunities for trade, investment, innovation, and professional networks.

But a diaspora can work its economic magic only if the host country tolerates it and the home country appreciates it. Governments should have a diaspora strategy that builds on natural feelings of identity and affection to cultivate this social network as a powerful source of economic progress.

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Multilateral or Bilateral?

The future of global trade

Interview with Maria Garcia, University of Bath

THE END OF THE COLD WAR saw the emergence of a 'New World Order', based on the convergence of all economies towards values of free movement and liberalism. Does this idea still apply today, or are we witnessing the birth of regional trade agreements?

Since the end of the Cold War a growing number of states have joined the WTO (World Trade Organisation), most notably China in 2001 and Russia in 2011. The WTO system is underpinned by values of economic liberalisation, and states joining the organisation have all agreed to operate within a basic framework of economic liberalisation. The WTO does permit the establishment of regional trade agreements, provided they go beyond levels of liberalisation that states have committed to at the WTO. Some preferential and regional trade agreements barely go beyond what the parties have committed to at the WTO, but others (especially USA and EU agreements) incorporate liberalisation in sectors that have not been successfully tackled at the multilateral level. Thus far, preferential and regional trade agreements have not created an alternative to the WTO system. What has become clear during the Doha Round is that there are groups of states wanting further liberalisation, and groups of states that prefer the current WTO *status quo*, i.e. a much more gradual and slow-paced progression to further liberalisation. This is what is being reflected in the growing numbers of preferential and regional trade agreements. Nevertheless, the WTO ensures a baseline level of liberalisation, that in itself is not contested by States.

In analysing global trade relations, do you see a trend towards favouring more bilateral instead of multilateral agreements?

The Doha Round at the WTO revealed deep fractures in what developed and developing states want in terms of trade rules. Developing states are less keen, and in many cases bureaucratically unable, to adopt the types of strict rules on intellectual property rights, to open their service markets, to open their government contracts to foreign companies in the ways that the USA and the EU wanted to introduce into the WTO system. Reaching a consensual agreement amongst 161 such heterogeneous members is always going to be a time-consuming endeavour. Discouraged by the slow pace of negotiations in the Doha Round, and with the aim to unleash a process of 'competitive liberalisation' encouraging individual states to accept Washington-inspired changes in exchange for greater access to the American market, the USA embarked on a series of bilateral and regional negotiations in the early 2000s. The EU followed suit, and China, which had already signed a free trade agreement with ASEAN, did likewise. Smaller states have also pursued active bilateral trade agreement strategies. Since now the multilateral and bilateral system have co-existed. A significant body of academic literature has revolved around the debate of whether bilateral agreements are 'stepping stones' or 'stumbling blocks' to economic liberalisation through the WTO, but there appears to be no conclusive answer to that. What is increasingly coming to the fore in



Will the future of world trade be based on a global set of rules...

policy circles is the realisation of a desire to avoid what economist Jagdish Bhagwati called 'spaghetti bowls' of overlapping bilateral trade agreements all with different rules. The Trans-Pacific Partnership (TPP) project incorporates 12 states in Asia and the Americas and deliberately allows for further states to join in the future. The EU's agreements with ASEAN states, although negotiated bilaterally, likewise aim to create the framework for a future bi-regional agreement. Perhaps, most importantly, the Transatlantic Trade and Investment Partnership (TTIP) under negotiation between the EU and the USA is purported to become a future benchmark of global liberalisation and standards for trade. One way it would do that is by allowing other parties to sign up to whatever agreement negotiations produce, or, as and when other states decide to abide by the agreement, transposing its content to the WTO. As these 'mega-agreements' are proving extremely challenging to negotiate, it is very difficult to make

predictions. For the foreseeable future the WTO is not under threat. Its dispute-settlement mechanism is trusted and popular, and it remains the basic underlying framework of the global trading system.

What do these different trade settlements represent in terms of political strategy? Are they only a way to get the best economic value, or do they represent a political statement?

Governments 'sell' free trade agreements to their electorates and populations on the promise of economic benefits from more trade, lower consumer prices from increased imports and more inward investment. In practice, it is challenging to fully quantify the outcomes of agreements. For instance, the EU-South Korea agreement was expected to bring more benefits to South Korea than the EU. By the time the agreement came into effect in 2011, the



... or on a wide variety of regional and bilateral agreements?

Eu was in the midst of the financial and economic crisis and imports from South Korea did not experience the expected growth spurt.

This notwithstanding, the European Commission's Directorate General for Trade requires an initial Impact Assessment where some economic benefit has to be identified in order to recommend the launch of trade negotiations. The USA, typically, also requires future economic benefit. However, the criteria that former US Trade Representative, Robert Zoellick, set out in the early 2000s also leave room for politically-motivated trade agreements, for instance to support a state Congress may wish to support, in exchange for garnering broader Congressional support for trade agreements in general. A crucial element for American and Eu trade agreements is the willingness of the partner state to agree to implement reforms that would enable the comprehensive liberalisation embedded in USA and Eu trade agreements. In this respect the agreements are about influencing economic governance and extending a particular model of liberalisation, and neither the Eu nor the USA will sign a less com-

prehensive agreement, even if it were to generate some (small) economic gain for particular sectors. For its part, China has used trade agreements in an even more openly political fashion. Its free trade agreement with Costa Rica, for example, is not of economic significance to China, however it did lead to Costa Rica supporting China's policy regarding Taiwan.

A region of particular interest both for its value and its geopolitical evolution is the Asia-Pacific: what is the trend? Are the US, China and the EU putting up different trade strategies in the region?

From a commercial perspective, European, Chinese, and American strategies in Asia-Pacific are sector-dependant and vary according to the firms' position in regional and global value chains. Nationality is a less significant factor. Politically, in terms of what the American and Chinese government and the Eu's trade policy in the region do, all are strengthening relations with other states, most-

ly through the creation of networks of free trade agreements. USA and EU agreements are similar in content, since both attempt to incorporate the extensive liberalisation they failed to get approved at the WTO. Chinese agreements in the region, to date, have been much more in line with traditional trade agreements, i.e. they have focused more on removing trade tariffs and quotas, and facilitating trade in services, but have not tackled regulatory barriers to trade. The less comprehensive, and less controversial, nature of Chinese trade agreements, has resulted in China having a broader network of signed agreements in Asia than the EU or USA. For China it is about improving regional supply chains and closer overall relations with neighbours. For the EU and the USA these agreements are also about extending a particular model of economic liberalisation, and that strategic outcome cannot be achieved unless complex and comprehensive agreements are signed and implemented. Military alliance aspects are also important to Washington, although these tend to be dealt with in separate agreements, but they can have an impact on the use of trade deals as a way of rewarding politically significant allies in the region.

The proponents of TTIP argue that one of the main results of the agreement will be the formation of new standards. How do other regions of the world answer to this proposal? And what will the effects be?

Firstly, as had been anticipated, reaching an agreement in TTIP on new standards is proving rather challenging, and is not a foregone conclusion. It is likely that in various sectors the EU and the USA will be able to agree to shared standards, and that they may agree to create joint ones for new and emerging sectors (e.g. drones, digital currencies). Secondly, everyone recognises that TTIP could have global effects. As soon as TTIP was announced in 2013, workshops on what it could mean for excluded parties were convened across the planet. China responded by asking the EU to open free trade agreement negotiations with them, even though, given China's trade agreements to date, China would not sign up to the type of trade agreement template the EU uses. The TTIP bet is that firms elsewhere in the world will shift to TTIP standards in order to have access to that massive market, but those whose customers are based elsewhere may

see no benefit in adapting. The sanctions over the Ukraine, among other developments, have brought Russia and China closer economically, and give a glimpse of a more complicated web of trade relations surging around the globe, which could weaken the resolve in parts of the world to follow whatever template TTIP creates in the end.

On a more general scale, do trade agreements actually have a normative effect beyond the sheer regulation of exchanges?

The short answer is yes, although the effectiveness can vary. Trade agreements including developed states include some form of labour and environmental standards clauses. American agreements include legally binding labour clauses that are subject to the agreements' dispute settlement mechanisms, whilst EU agreements tend to include measures to promote greater cooperation and improvements in labour and environmental standards. EU agreements are linked to political agreements that can result in a suspension of trade privileges if a signatory fails to respect human rights for instance, so in this respect they are actively used as foreign policy tools to achieve particular changes and behaviours.

Implementing any of the new-style comprehensive trade agreements requires domestic reforms in the economic and social regulation of signatory states, although part of the resolve to undertake the reforms comes from before the initiation of negotiations. These changes can be in any area. Colombia had to agree to a Roadmap for the treatment of trade unions, and to report on this to the EU as part of the EU-Colombia/Peru Trade Agreement.

A technical example comes from Singapore. The island state had to overhaul its entire Intellectual Property Rights (IPR) legal regime in the early 2000s to comply with the USA-Singapore Free Trade Agreement of 2004. Its USA-inspired IPR regime, in particular its trademark based system for protection of Geographic Indicators (GI), compromised its ability to acquiesce to EU demands on GI protection in negotiations for a free trade agreement with the EU. In the end a compromise was reached, which will involve Singapore creating its own GI register. Singapore has had to invest in fact-finding missions, training and infrastructure to create the register, which will become operational once the FTA is ratified in Europe and the agreement is implemented.

How migration fosters trade

Chiara Strozzi
University of Modena - Reggio Emilia

Migrants have been proven to be a big force in creating trade connections between countries. But in a time of constant evolution, more research has to be done to fully understand the phenomenon.

THE RAPID GROWTH in the migrant population in many developed countries in recent decades has given origin to much debate on the socio-economic impacts of migration, also promoting a significant increase in research activity on this issue. A great amount of research in particular has focused on the analysis of the **links between international migration and international trade**. International migration and international trade are indeed two key dimensions of globalisation, even if they have not developed at the same pace: while most governments have shown to be willing to promote international trade, they have not been so liberal in their migration policies. It has been suggested, however, that a causal positive link might exist between them, ranging from migration to trade.

There are two primary theoretical (and intuitive) reasons for believing that migrants play an important role in expanding foreign trade: one is related to information costs and the other is related to preferences.

The first reason applies both to exports and to imports and relies on the idea that information costs play a major role in the fixed costs that firms have to pay to enter foreign markets. Transaction costs in terms of costs of information may indeed inhibit international trade. In such a framework, migrants may act as trade intermediaries and reduce those

costs. This occurs when migrants exploit the links to their home countries. These links include knowledge of home-country markets (e.g. local customs, laws, business practices, preferences), language and business contacts. In line with this argument, the role of business contacts and social network is crucial both to promote contractual arrangements characterized by trust and to overcome informational asymmetries. The evidence of numerous case studies indeed shows that cross-border business and social networks promote international trade (both imports and exports) by reducing the issues related to contract enforcement and by providing information about trading opportunities.

The second reason migrants may promote trade applies only to imports and relies on the idea that migrant consumers may have a preference for certain goods that are produced in their country of origin (e.g. they may prefer ethnic foods produced in their country of origin). Since goods produced in their country of origin are more costly in the host country, immigrants have an incentive to buy these goods from the home-country, thus promoting imports. This effect is likely to be small for goods that are homogeneous with respect to the goods produced in the home country. This effect is likely to become smaller over time, since it may occur that at a certain point the number of migrants is high enough for domestic firms to start producing those products.



A spice store in Germany, an example of how migrants can reduce the cost to accessing foreign markets

Taken together, the information channel and the preference channel may be called *direct migrant links*, since they are related to migrants which directly affect trade flows either to or from their country of origin. Beside them, there are also the so-called *indirect migrant links*, which are related instead to third-party migrants, the ethnicity of which pertains neither to the importing nor the exporting nation. In other words, while direct links relate an individual of a given ethnicity and living in a particular country to another individual of the same ethnicity living in the origin country, indirect links relate an individual of a given ethnicity and living in a particular country to another individual of the same ethnicity who resides in another country, where this country is different from their common origin country. The reason why also indirect links among immigrants may promote trade is that ethnic minorities living outside their home countries create formal or informal networks to which both the host country and home country have access, thus creating the potential to provide market information and to

support contractual enforcement. Indirect links are therefore mostly related to the information channel while they should not reflect the preference channel, since they do not depend on the relationships with the country of origin.

Through their direct or indirect links, migrants convey knowledge spillovers that can reduce information costs to economic agents who do not migrate. These spillovers generate additional production and trade opportunities for them, together with utility-increasing consumption opportunities for the non-migrants of both countries. In addition, migrants can also increase the productivity of the exporting firm through the so-called *diversity effect*, in which migrants foster creativity and help generate new ideas within the firm, and through the so-called *specialisation effect*, in which migrants possess a comparative advantage in performing certain production tasks, thus allowing for greater division of labour within the firm.



The Venetian Republic owed much of its power and wealth to its ability to develop and capitalise on a wide network of merchants located in foreign markets. Painting by Canaletto, *The return of the Bucintaur to the Molo on Ascension Day, 1730*.

The international trade literature has generally found a strong association between migration and trade. Cross-sectional studies in particular reveal that in general there is a positive effect of migration on trade, even if the elasticity estimates differ greatly, depending on several factors. First of all, the elasticities between immigration and trade are estimated for different countries using different estimation methods and specifications. Second, the choice of the reference period matters. In particular, the positive effect of migrants on trade is particularly strong when the first migrants from a particular origin country arrive in the host country, while this impact becomes smaller in the long run, once a large migrant community has been established there. This is especially true for bilateral import flows. Third, also institutions are relevant for the results, and in particular the type of migration and trade policies of host countries, which are expected to influence the size and characteristics of

« By reducing the costs of exporting services to their country of origin, migrants have hence a specific export promotion effect »

the immigrants, thus affecting the strength of the information and preference channels. The ability of migrants to relay information on foreign markets may indeed depend on the type of migrants (independent, entrepreneurs, family immigrants, refugees), their educational level (skilled or unskilled), the length of their stay in the host country, and the size and variety of the migrant community. Finally, the type of traded goods matters, especially for

the preference channel. The pro-trade effect of migrants is in particular likely to be lower for homogeneous goods, for which the immigrant preference effect is expected to be lower. Since in general the developed countries of the North export differentiated products to the South, the pro-trade effects of immigrants should hence be especially relevant for the trade flows between the North and the South. In addition, trade with less-developed countries requires more familiarity with the reliability of other parties, thus making the information channel more relevant in case of trade between the North and the South than in case of trade among developed countries.

Although the great majority of cross-sectional studies provide evidence of a strong and robust positive correlation between trade and migration (even showing a great deal of differences in the results), doubts persist on the role of unobserved factors which may be driving this relationship. The estimated connection between migration and trade is indeed severely reduced in panel-data analyses, which allow to account for unobserved heterogeneity in the data. Panel-data analyses in particular allow to consider both unobserved country-specific factors and unobserved bilateral ties between countries. Since cross-sectional studies cannot account for such factors because the trading partners are observed only once in a certain time period, their results should be interpreted with caution. In particular, they are likely to overestimate the impact of migrants on trade.

More in general, it is worth pointing out that the analysis of the links between migration and trade has so far almost neglected the role of additional crucial aspects. Among them, the diffusion of international trade in services and the growing development of new telecommunication technologies.

International trade in services is a key aspect of globalisation. The volume of international trade in services has indeed grown rapidly in the recent decades and has outpaced growth in goods trade. Although relatively unexplored so far, the links between migration and trade in services are instead particularly important. Migrants may indeed reduce the costs of exporting or importing services

to and from their home country by helping domestic firms dealing with cultural and institutional barriers in the foreign markets. The reason is that providing a service abroad requires the knowledge and understanding of cultural specificities that are more complex than those required when selling a good. This is true for example for services such as business and legal services, due to customer-specific information required for their provision. With their better knowledge of culture and institutions of their country of origin, migrants may help domestic firms to target the different services toward their home country customers, thus allowing them to successfully penetrate in the foreign market. By reducing the costs of exporting services to their country of origin, migrants have hence a specific export promotion effect. At the same time, migrants can also induce an import reduction effect for some intermediate services, as long as they substitute for work that is otherwise performed by workers in their home country.

The diffusion of new telecommunications technologies is certainly another key aspect of globalisation which can have important implications for the role of migrants in international trade. In particular, the use of e-mails and internet search engines is likely to reduce the demand for migrant networks. In general, however, the new telecommunications technologies are likely to be a complement to rather than a substitute for face-to-face contact: information is indeed still an *experience good* and personal contact still helps to build the trust needed to develop deals.

While the role of the diffusion of both international trade in services and new telecommunications technologies have not been sufficiently investigated so far in the studies of the impact of migration on trade, also the impact of diasporas on trade in origin countries has not been given adequate attention. The focus of the research activity has been actually on the impact of migration on trade with respect to the host country, rather than the source country. For this reason, considering the impact of international migration on trade for both sending and receiving countries with respect to the full range of international economic linkages among them is a key issue for further research on this topic.

A Digital Trade Policy for a Digital Economy

James Lockett
Huawei

**A competitive and open trade is vital for Innovation.
The success of the ICT company Huawei in Europe stands as an example.**

OPENNESS AND COMPETITION are the cornerstones of market economies. Huawei has always believed that these free trade values, along with cooperation, are the underlying drivers of growth and development. Of course, they have to be applied in an orderly way, and so, as a global company, we are very conscientious about supporting and complying with global trade rules.

Huawei has succeeded globally by being open and competitive, and by maintaining close relationships with public institutions, as well as collaborating appropriately with our customers, suppliers and rivals in the marketplace. Our success is also due to the company investing heavily in R&D, giving us a unique and collaborative commitment to innovation. We believe that free trade and innovation go hand in hand, one fostering the other.

Our approach is to build, wherever possible, a harmonious business environment where innovation can thrive – a win-win industry value chain through open cooperation. Indeed, by adhering to the principles of openness and cooperation, we are able to develop industry chain resources with our peers and carry out cross-domain collaboration on various levels with partners in a range of regions and industries.

To understand Huawei's perspective on free trade and innovation we have to go back to its humble beginnings – a company founded a little over 25 years ago. Founder Ren Zhengfei says this happened «quite by chance», when he lost his job as the Chinese mi-

litary was streamlined. No longer able to work for a state-owned enterprise, Ren started his own business under fairly unfavourable circumstances in China at that time, with lots of competition from well-funded foreign companies.

«The biggest issue I faced was a lack of knowledge about how the market economy worked», he explained recently at a Davos Summit. «Finding it difficult to mesh fully with mainstream society, I worked on the periphery of the market. Those who could not do a good job would be held accountable for it, and I still had to learn what I needed to know about a manager's responsibilities.»

So, effectively, Huawei began life with no resources, no background and no secrets. In 25 years it has grown into the world's leading information and communication technologies (ICT) solution provider, thanks to spectacular growth in recent years. Only by working hard has the company developed opportunities. Our one goal is to serve our customers. Our global development depends upon us integrating openly with the world.

Europe, Huawei's second home

This is how Huawei grew to be a global ICT leader. Today we operate in over 170 countries across the globe, and have built successful partnerships with 45 of the world's top 50 telecoms operators, around half of which are European. Indeed, Huawei considers Europe as its second home market. We provi-



de high-quality customised services and solutions to serve European customers better, and to reinforce our core value of being a customer-centric company. As a local partner, we are in Europe for the long run. As a result, we have moved a substantial part of our global value chain to Europe. With some 9.900 employees in the region, of whom 1.200 are working in R&D, local talent makes up every link of this value chain. These deep local connections enable Huawei not only to understand and meet the needs of our customers, but also to contribute to our global offering, integrating European resources and capabilities. This has meant a boost to smart growth for the region.

For these reasons, Huawei is in a unique position to support Europe and China's ambitious plans for their common future. Huawei continues to work hard to foster dialogue between all actors of the Eu-China partnership, while helping to make the voice of the European ICT research and business community heard in China.

Thriving in the context of free trade and fair competition, Huawei has thus become a driving force of European innovation, thanks to having made Europe

its global competence centre. We run 18 R&D sites in Europe, located in eight countries (Belgium, Finland, France, Germany, Ireland, Italy, Sweden and the UK), and operate numerous joint innovation centres in partnership with telecom and ICT partners. In May 2015, we established the Huawei European Research Institute (ERI) in Leuven, Belgium, to manage this growing array of research facilities and strengthen our win-win partnership with European industry.

The company also set up the ERI in Leuven to support the European Union in implementing its 2020 Digital Agenda, which seeks to exploit the potential of ICT to power economic growth. Huawei's core objectives and activities, as well as the European focus of our R&D investment strategy, dovetail with the priorities of the EU's Digital Agenda for Europe. We are using ICT to deliver smart, sustainable and inclusive growth, teaming up with European partners to develop telecom networks and solutions, invest in underdeveloped regions and support ICT education.

5G research

One of the biggest areas Europe and China are exploring together is the next generation of mobile com-



munications (5G), ultra-fast wireless networks that are due to be introduced in the next decade. Huawei is at the forefront of initiatives to drive 5G technologies forward, and has already taken concrete steps towards delivering a global, market-ready 5G standard by 2020.

In Europe, the company is working with industry leaders, consortia, universities and innovation platforms, as well as participating in EU 5G research projects, including the METIS consortium and the 5G PPP (Public-Private Partnership). It is also researching 5G technologies at Surrey University's 5G Innovation Centre (5GIC) in the UK, where it will be investing £5 million as part of the \$600 million it is committing to 5G research globally by 2018. Huawei is also building a large-scale 5G test-bed in Munich, Germany, with the Bavarian State Government, the City of Munich, Technische Universität München (TUM) and M-Net, which will enable researchers to conduct 5G trials in a real-world environment.

At the Chinese level, Huawei played a major role in the push to open R&D funding in China to companies and researchers from other countries. The adoption of the 863 Programme was a direct result of these efforts.

Indeed, over the past few years, Huawei has been promoting dialogue between China and Europe in many ICT areas, including cloud computing, the Inter-

net of Things and standardisation efforts. With the 40th anniversary of EU-China relations providing momentum to deepen bilateral engagement, Huawei is committed to further stepping up efforts to deliver win-win results by helping to strengthen strategic dialogue, and by using its expertise as an innovator with a global perspective to bring joint projects to fruition. Much remains to be done, however, and by actively engaging with EU policymakers, industry, research partners and civil society, Huawei hopes to contribute to shaping the right policy framework to achieve digital targets.

Many people in the EU still lack adequate access to high-speed internet, for instance. Europe also needs to start preparing for 5G on the ground – the move towards ultra-fast connectivity is a pre-requisite for keeping Europe competitive and offers a myriad of new applications. Upgrading Europe's broadband networks will be the key to bridging the 'digital divide' and ensuring that Europe reaps the full benefits of the ICT revolution.

Cloud computing

Cloud services are another area reshaping the way in which we work, share, connect and conduct business. The immense computing power they make available to users – from individuals and small businesses, to large companies and governments – involves more and better online services available to more users

at a lower cost. With this wealth of new opportunities for Europe comes the need to create the right environment in which to seize them and to help this technology grow to its full potential.

At Huawei, we believe that regulation, technological collaboration and the definition of common international standards will be instrumental in making full use of this revolutionary technology. We are working to address the concerns that prevent many potential users from embracing the cloud. Data protection, data security, data portability and interoperability are key.

Overcoming these challenges requires close collaboration and efficient alignment between policymakers and industry actors. Huawei is contributing to this process by engaging in an open dialogue with decision-makers, but also by providing the building blocks for cloud infrastructure. We are supportive of trade agreements at multilateral, regional and bilateral levels to provide ongoing frameworks for open competitive services in this rapidly evolving arena.

Internet of Things

The Internet of Things (IoT) enables multiple forms of communication – machine-to-machine, machine-to-man, man-to-machine (M2M). Considered the next big IT wave following computers, the internet and mobile communications, M2M makes the idea of a ‘smart planet’ a reality.

Enabling ubiquitous smart connectivity involves not just technological innovation, but also a framework to ensure the security and privacy of users. The EU has made the Internet of Things a priority in its Digital Agenda for Europe. A wide range of EU-funded projects have been set up to secure deployment of the Internet of Things in Europe and to develop appropriate standards. Huawei is determined to play its part in this development.

At Huawei, we are eager to provide all the help we can to support the IoT in and for Europe, including by speeding up progress toward 5G, which could connect 100 billion devices as early as 2020, providing a truly immersive experience.

Together with our European partners, we are working on exciting applications designed to make life in the cities of tomorrow easier, greener and cheaper. At an innovation lab run by Imperial College London and Huawei, we are looking into ways of harnessing big data for applications including energy and healthcare.

Advancing global standards and respecting IPR

As the globally accepted GSM standard for mobile telephony developed in Europe illustrates, effective standards are vital for the development and successful deployment of technology. Given that the EU and China are two of the world's leading markets for ICT, it follows logically that both should work closely together in setting common standards.

Intellectual Property Rights (IPR) are also a key component of free trade and innovation. Huawei greatly respects the IPR of industry partners, and also attaches great importance to developing and protecting our own IPRs. The number of European patent applications filed by Huawei increased in 2014 at a faster rate than ever, reaching 1,600. Rising to the 7th largest patent-holder in Europe in 2014, from 13th in 2013, Huawei had 493 patents granted by the European Patent Office, reflecting the company's innovation competence. This is the highest position a Chinese company has ever reached in the rankings.

While working hard to innovate, and remaining vigilant over IPR, the importance of openness in a free trading world cannot be over-emphasised. We need to remain open-minded if we are to integrate fully with the world, jointly contributing to the information society revolution, for only then can we have a bright future.

In conclusion, Huawei firmly backs the international trade rules that allow today's commerce to move across borders. We have supported the two most recent agreements advancing such trade, namely the WTO's Trade Facilitation Agreement and the Information Technology Agreement, both of which reduce trade barriers for ICT goods. We support developing synergistic rules that address today's trade issues, which revolve around regional and global value chains, and around complex transactions involving goods, services and IP delivered in multiple ways.

We must move forward with creative rule-making ideas which encourage rather than stifle ICT deployment. Today's world cannot afford to be slowed by analogue rules for a digital economy. Digital rules need to provide guidance to a digital economy that changes every 1-3 years presently and faces accelerated change. Huawei will join with its ICT industry colleagues in promoting such rules for the benefit of our customers and our society.

A bridge on the Bosphorus

Luc Devigne & Alfio Anzalone
European Commission

The EU-Turkey Customs Union has been successful in bringing the two parties closer. But now it needs to be modernised, to cope with today's global economy.

The EU-Turkey preferential bilateral trade relations are governed by the Association Agreement and subsequent Decisions taken. One of these is the **Customs Union Agreement (CUA)**, covering only trade in industrial goods and some aspects of the trade in agricultural goods. Furthermore, a Free Trade Agreement (FTA) covering most coal and steel products has also been signed. The instruments that regulate those trade relations were agreed in 1963, 1995 and 1996, even though some additional limited amendments were introduced later on.

It is also important to note that the CUA and the FTA were concluded in the context of Turkey's accession: Turkey is a candidate country whose accession negotiations started in 2005.

What the CU has achieved

The Customs Union (CU) entered into force on 1st January 1996. As a consequence, Turkey has to align its tariffs on those of the EU, but only for the products covered by the CU, i.e. most industrial products as well as the processed agricultural products. Furthermore, as in ambitious FTAs, EU and Turkey eliminate all customs duties, quantitative restrictions and charges with equivalent effect on their bilateral trade.

As a result of the FTAs concluded by the EU since 1996, and in order to align on the EU commercial policy, Turkey had to conclude its own FTAs with the EU's FTA partners. This allowed Turkey to conclude a large number of FTAs, (recent example: with the Republic of Korea).

These FTAs have contributed to the development of Turkish business' competitiveness and trade. The Customs Union was even more effective as far as direct trade between Turkey and the EU is concerned: since 1996, bilateral trade has been multiplied by four, reaching 129 billion euros in 2014.

For Turkey, the EU is the first trading and investment partner (EU accounts for 75% of the foreign direct investment in Turkey); on the other hand, for the EU, Turkey became a more and more important trading partner, becoming the fifth largest in the first Semester 2015.

The CU has supported these positive developments and has directly contributed to Turkey's productivity gains. The CU has also provided a significant incentive for reforms in Turkey in the field of trade facilitation and customs (including through modernization of the Turkish Customs Administration). The CU has helped the alignment process with the EU's legislative *acquis*, improving the quality of infrastructure and facilitating reform of Turkish technical regulations for the benefit of both Turkish businesses and citizens. The European Commission believes that these improvements are of great economic significance for Turkey and lie at the heart of Turkey's strong export performance over the past decade.

But the EU and the world have changed in 20 years...

Since the CU took effect, important developments have taken place. The world economy has become



increasingly globalised and interlinked, new and important economic actors are now contributing to its development.

Furthermore, the Eu enlarged from 15 Member States to 28. This has granted Turkey an access to even wider market covered by the Cu Agreement and brought with it new opportunities but also challenges in terms of competitiveness.

Finally, following the Commission Communication *Global Europe* of 2006, the Eu has concluded and will conclude more FTAs with many economically important countries in the world. It is important to note that these FTAs cover more fields and sectors than the Cu.

In this context, a comprehensive study on the 'Evaluation of the EU-Turkey Customs Union' was commissioned by the European Commission to the World Bank. The study concludes that resolving systemic problems of the Customs Union and developing the trade relations into new areas would increase the benefits for the parties.

Looking ahead

Despite the real and substantial achievements of the Cu, there is still untapped potential to further develop the trade relations between Eu and Turkey. The Eu-Turkey Customs Union, which in 1995 was a landmark agreement in terms of ambition, was progressively overtaken by newer, much broader trade agreements concluded by the Eu. Indeed, the Cu coverage is limited to industrial goods, complemented by other agreements covering most steel products and a large bulk of agricultural products. However, the FTAs concluded by the Eu since then are much more «deep and comprehensive», covering not only goods and agricultural products, but other important areas for modern economies such as services, public procurement, non-tariff barriers, (industrial and food safety) standards. Consequently, the then ambitious Cu Agreement has been progressively outdated and is now lagging behind the recent Eu FTAs.

As mentioned above, trade has been boosted over the last two decades. It should not be surprising that with



The Maiden's Tower (in Turkish Kız Kulesi) in the middle of the Bosphorus, Istanbul

such an important trade volume there may be trade 'issues', or even irritants, linked to measures taken by Turkey, that one would expect could be resolved within a reasonable timeframe. However, this has not always been the case as it was not easy to find a solution to certain persisting commercial problems. The current dispute settlement mechanism framework foresees that in order for a party to go to a court or arbitration, it is necessary for both parties to agree. This lack of effective dispute settlement has gradually led to an accumulation of frustration. It is therefore very much necessary that an efficient dispute settlement mechanism be introduced in the Cu, whereby either party can decide unilaterally to request a court or arbitration procedure if it believes that the other party is not respecting its commitments. Such a provision would also constitute an incentive to encourage both parties to effectively implement the agreement fairly and completely.

Furthermore, the position of some EU FTA partners preventing to negotiate an FTA with Turkey is likely to increasingly strain the functioning of the Cu, as these partners could access the Turkish market at preferential conditions thanks to the Customs Union whilst Turkey would not be able to access the market of those partners at preferential conditions in the absence of an FTA with them.

« It is undisputable that the EU-Turkey Customs Union has been beneficial to both sides. It is equally clear that the agreement is outdated and needs to be modernised to cope with today's reality »

For these reasons, we believe that a new, updated and more balanced and ambitious trade framework should be envisaged. Such an arrangement would no doubt further increase Turkey's integration to the EU in relevant areas.

This is why the EU Trade Commissioner Cecilia Malmström and Minister of Economy of Turkey Nihat Zeybekci agreed on 12 May 2015 to modernise the 20-year-old Customs Union Agreement and to enhance EU-Turkey bilateral trade.

The preparatory discussions took place in 2014 and 2015 in an open and positive spirit and allowed to understand better each other's views, interest and concerns. The joint conclusions of senior officials' discussions, endorsed on 12 May 2015 by the EU Commissioner for Trade and the Turkish Minister of the Economy considered that the enhancement of the bilateral trade relations should be done as a package, consisting of 2 main pillars, as outlined below. It should be highlighted that the launch of this process does not replace the accession negotiations; rather it could be instrumental in facilitating them.

Amending and better implementing the 1995 Customs Union

The EU and Turkey should seek to better implement and/or to amend certain provisions in order to improve the functioning of the CU, notably developing a legally binding provision that should enable Turkey to benefit simultaneously from the FTAs concluded by the EU with third countries; improving dispute settlement mechanism; improving joint decision making mechanism (to bring about the proper functioning of the CU, including consultation mechanisms, in particular on planned legislation that may impact the functioning of the Customs Union); letting Turkey participate to EU committees and specialised agencies relevant to the Customs Union; establishing a communication by the Commission to Turkey of the new *acquis* that Turkey has to incorporate in its domestic legislation, and by Turkey of the *acquis* it has actually incorporated in its domestic legislation; improving the frameworks for the implementation of TBTs (industrial standards) commitments and for the implementation of the existing intellectual property rights commitments; review-assessing the effective implementation of certain provisions that pointed to a future *rendez-vous*.

During this process, it is expected that the Parties try to find solutions to current unresolved trade issues and refrain from adding new problems.

New areas to be covered in the enhancement of bilateral relations

The main finding of the World Bank study referred to above, is that further trade integration between the EU and Turkey is in the interest of both parties, both if the framework for integration consists of a deeper and a wider version of the current CU and alternative trade policy arrangements. Evidence presented in the study shows that wider trade integration in the areas of primary agriculture and services – two areas not

currently covered by the CU – would potentially bring welfare gains to both parties.

Furthermore, opening the public procurement area to the other party would also bring additional benefits to both sides (market access for the EU and best value for money, among others). Therefore, both parties agreed that new areas should be covered in a new agreement, such as:

- **services**, including issues such as mutual recognition of qualifications to achieve the objectives set out in the Association Agreement in this area. Negotiations would go beyond what both sides are negotiating in WTO (TISA).

- **public procurement**.

- **further liberalisation in agricultural products**, together with strong SPS (food safety) provisions and enhanced cooperation on Geographical Indications.

Other areas may also be addressed with the agreement and mutual interest of both Parties.

The next steps

Each party agreed to carry out its respective internal procedures that would allow the negotiation to start. For the EU, this implies that the Commission as part of the preparations carries out an impact assessment of the new framework. This impact assessment will be supported by an independent study and will take into account i.e. the contributions received through an open public consultation. Negotiations can start once the Commission has received the green light from the Council on the negotiating mandate.

Conclusion

It is undisputable that the EU-Turkey CU has been beneficial to both sides. It is equally clear that the agreement is outdated and needs to be modernised to cope with today's reality. At the same time, the CU is limited to covering mainly industrial products, largely lagging behind the modern FTAs concluded by the EU. It is therefore high time that both sides consider updating the CU so that it can function better, and to enhance their bilateral preferential trade relations in a very ambitious manner to arrive at least at a level comparable to (preferably even to a higher one) what has been reached in recent EU FTAs.

The views of the authors do not necessarily represent the views of the European Commission

The political meaning of TTIP

Interview with H.E. Jiří Šedivý,
Permanent Representative of the Czech Republic to NATO

TTIP is today a highly controversial topic among EU's citizens. How is it perceived by the Czech population? And what is the Czech government's opinion?

There was an opinion poll in Czech Republic recently that for the first time included two questions on TTIP. It showed that 20% of the respondents knew about TTIP, while only 2% said they knew very well what it is about. So the public perception is still very limited.

There are activities organised in order to oppose the project, but they are very marginal. They come by and large from the far left wing and populists. It takes the form of a few articles and some demonstrations that never attract more than a few dozens people.

The position of the government is very clear: it supports TTIP. One of the reasons is that the Czech economy is one of the most globalised economies in the EU – about 80 % of our GDP is dependent on export. Furthermore, since the reestablishment of our statehood and regardless of the government, Czech Republic has followed the principle of free and open trade, as symbolised by the slogan of the EU Czech presidency of 2009, «Europe without barriers». So we see TTIP as a huge opportunity and a win-win situation.

Hillary Clinton has defined TTIP as an 'economic NATO'. Do you agree with this definition? What is its strategic meaning?

I would use this formula carefully as it could evoke an aggressive connotation. I have been working at NATO for six years and can tell you that we are not always and everywhere the most popular international organisation. And such connotation could

raise further misperception on the whole TTIP project.

As to the strategic meaning of TTIP, I believe that we should not lose the wider picture. First of all, it is indeed about free trade. But it should be also seen as an answer of the West to wider challenges of globalisation, as a project that could galvanise the Transatlantic community with an infusion of economic but also political drive.

We are in the situation where our institutions, our way of life, our norms, what we stand for and is called the 'liberal international rules based order' is increasingly challenged from various sides. I believe that if the TTIP project is successful, it could make a global game-changer not only in terms of economic profit; it could spill over into a closer political co-operation within the West. I would perhaps go even further: we see now a similar process the US undertakes with countries of the Pacific.

TTIP means about 45-48% of the global GDP. Now imagine joining that project with another dynamic area (and like-minded nations) such as that one emerging in the Pacific. That would result in a formidable global force for good, not only economically but also on the strategic and normative level.

Some of the fears surrounding TTIP are that it will take away some of the EU's independence. Is Europe getting on the losing side of the treaty as compared to the US?

Certainly not. This has to be a two way street. And I am sure that the other side is facing similar concerns, in different areas than us, but very similar indeed.

In general terms, whenever a nation or a bloc creates more interdependence with another nation or bloc, it inevitably implies accepting constraints.



Ambassador Jiří Šedivý

Otherwise, it would simply not work. But the expected added value of the agreement outweighs this aspect.

On the other hand, in the new global situation, is NATO still a valid pact? Cannot the TTIP be interpreted as a way to find new ways of agreement with the Eu while the Us pivot to Asia?

I think that NATO is even more relevant now than it was a few years ago. Especially with everything that is happening in the East and in the South of Europe.

I believe that if TTIP is successful and there is that political spill over, then NATO, as the only functioning transatlantic organisation, would get an additional meaning, an extended *raison d'être*.

What is the Czech perspective on the Us request to European countries to invest more in their own defence?

Let us not forget that the Us supports more than 70% of the burden of financing NATO. The '2% GDP rule' is still just a recommendation. It became more

of a 'pledge' since the last year's summit in Wales. The idea is to stop the decline first, and then to begin investing more and better.

It should be noted that the European average is now up to 1.4-1.5% GDP, while the Us is more than 3.5%. So it is very legitimate on the part of the Us to ask its allies to do their part. Defence sector is excluded from the TTIP negotiations. Nevertheless Europeans should consider using a part of the future profit from the Partnership to prop up their investment in defence.

The Czech Republic was amongst a group of 10 Allies led by Uk and Us who were initiating the Wales Defence Investment Pledge (DIP). We take it seriously. We have already stopped the decline and begin increasing our budget this year already.

What is also important is not only the input but also the output: some nations have almost 80 % of their defence budget spent in personnel costs and almost nothing left for investment. Part of the DIP is to invest 20% of defence budget into modernisation while keeping personnel cost below 50%. The rest means 30% for the operational maintenance and other functioning expenses. It is the so-called '20-30-50 rule'.



The debate around T_{TIP}, and especially around its ISDS clause, seems to underline a broader idea: that nation states are getting weaker as opposed to transnational or supranational powers. What is your take on that? Are we moving to a no-nation system?

Honestly, there are very few nation states around the world that are truly sovereign in terms of political power economic autonomy. In the current connected world sovereignty is rather a legal fiction.

Look at the EU for instance: We have exchanged a part of our sovereignty to become member of the bloc; but with that we gained influence on EU's decision making. At the same time, if you look at the state level, sovereignty still exists in terms of taxations, redistribution and allocation of public funds... I think we should stop looking at nation states as we used to in the 19th and 20th centuries, i.e. through rigid Westphalian lenses. Nation state has been transforming flexibly, adapting to regional and global trends of growing interdependence.

Now as to the ISDS clause. Czech Republic supports it as an indispensable part of the Treaty. ISDS is about protection of investment, which is also one of the main principles of the EU. We should see it as an opportunity to finally agree on a very modern framework for the settlement of disputes in the area of international investments. It is important that the ISDS arrangement provides for safeguard against unsubstantiated claims. But I think it is manageable. All depends on the clarity and effectiveness of the regulatory framework for ISDS.

The problem is that this clause has been 'ideologised', and manipulative interpretations have been issued saying that it would lead to big corporations dominating states. We shall not forget that this kind of clause already exists in agreements that developed and rule-based countries and the EU have concluded with countries that are more difficult on that matter of legal certainty.

In the end, if we keep it right, and since the WTO does not provide us with anything on that subject, the ISDS clause could be recognised as an international standard for investment protection and arbitration procedures.

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BROTHERS IN BUSINESS

Laura Baeyens

Starting from humble origins, New European brothers David and Simon Reuben grew to be among the richest people in the United Kingdom. Their story is a an example of how family values and solidarity can drive success.

MANY PEOPLE often say family and business do not mix, that family is your worst business partner, your worst enemy. But not for New European billionaire brothers' David and Simon Reuben who are currently the 117th richest people in the world according to Forbes, their total net worth at \$10,1 billion (€8,6 billion).

«They have a unique relationship. They are almost like Siamese twins. There is no 'his' or 'mine'». Lisa Reuben, daughter of Simon, remarks about the dynamic duo who became two of the United Kingdom's most successful entrepreneurs, alongside Richard Branson and the Hinduja brothers.

Of humble origins

The self-made billionaires built their way to the top from nothing, thanks to their entrepreneurial spirit that runs in their family of Iraqi and Indian origins. According to Jamie Reuben, David's son, «they had absolutely nothing. I have heard the stories from my mother – she was the one paying for the dinners when she met my dad».

Born in Bombay, India in the 1940s to an Iraqi-Jewish family of businessmen, the Reuben brothers immigrated to London when they were teenagers. While finishing college, David worked

nights for a scrap metals business while Simon did not pursue further education and instead worked for a carpets company.

Big boys of business

«I cannot read a computer screen and never use a calculator. It is all in my head and by hand». Without completing formal education and starting at a low position in a small carpets business, Simon Reuben was able to buy England's oldest carpet company after just a few years, eventually saving enough money to buy and invest on properties in the UK. David was also making it big in the metals business and trade at the same time.

«They finish each other's sentences». Aside from being brothers, their entrepreneurial chemistry became apparent when they joined forces in the 1970, started their very own metals business and jointly invested in properties for development. In the 1990s, they invested in the Russian metals market and became one of the largest producers of aluminium in the world.

Aside from the metals trade, these successful New Europeans currently own and invest in different international companies in various sectors, including mining, finance, IT and real estate.



Simon (on the left) and David (on the right) Reuben, together with David's son Jaime

Giving back

Growing up, the Reuben brothers' children were humbly raised despite their vast fortune. Mentored by their fathers, they are now also successful entrepreneurs. «As kids, we were never given extravagant gifts. Our parents would tell us not to talk about money, and they were always cost-conscious».

Reminiscing on their childhood in the Reuben household, the brothers' children narrated, «it was abundantly clear that there were many unfortunate people in the world. We knew we could not help everybody, but you were expected to help somebody. And food left on the plate was a big no-no (...).» Despite their entrepreneurial success, the two New European entrepreneurs are not that known, due to their publicity-shy de-

meanour, although they have contributed a lot to reshaping London's landscape and are very active in philanthropy.

The brothers helped in the redevelopment of many sites in London, as well as funded the construction of affordable housing. Under the Reuben Foundation, they do most of their philanthropic work in the health and education sector through building hospitals, clinics, libraries, and education facilities, as well as providing scholarships, both inside and outside the UK.

The Reuben brothers' secret to entrepreneurial success? Solidarity, with the spirit of family and brotherhood as the core of their business.

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TALENT **versus** CAPITAL in the 21st Century

Klaus Schwab
World Economic Forum

In the era of fast technological developments, economic growth will increasingly be determined by talented and highly-educated human capital. To meet the challenge of governing change, business and governments should start focusing on the long term.

WHEN FINANCIAL policymakers attempt to promote economic growth, they almost invariably focus on looking for new ways to unleash capital. But, although this approach may have worked in the past, it risks giving short shrift to the role that talent plays in generating and realising the ideas that make growth possible. Indeed, in a future of rapid technological change and widespread automation, the determining factor – or crippling limit – to innovation, competitiveness, and growth is less likely to be the availability of capital than the existence of a skilled workforce.

Geopolitical, demographic, and economic forces are relentlessly reshaping labor markets. Technology, in particular, is changing the nature of work itself, rendering entire sectors and occupations obsolete, while creating completely new industries and job categories. By some estimates, almost half of today's professions could be automatable by 2025. Speculation about what will replace them ranges from predictions of unexpected opportunities to forecasts of large-scale unemployment as machines displace most human labor.

The first signs of this disruption are already visible. Global unemployment has topped 212 million, according to the International Labor Organisation, and another 42 million new jobs will need to be created each year if the world economy is to provide employment to the growing number of new entrants into the labor market. Meanwhile, last year, 36% of employers worldwide reported facing difficulties in finding talent, the highest percentage in seven years.

Addressing this mismatch in supply and demand will require governments, business leaders, educational institutions, and individuals to overcome incentives to focus on the short term and begin to plan for a future in which change is the only constant. All must rethink what it means to learn, the nature of work, and the roles and responsibilities of various stakeholders in ensuring that workers around the world are able to fulfill their potential.

Human-resource executives at some of the world's largest companies anticipate profound disruptions from the increased adoption of mobile Internet and cloud technology, the use of big data, flexible work arrangements, 3D printing, advanced materials, and new energy supplies, according to early results from a survey by the World Economic Forum. Their view of the overall impact on employment levels in their industries was for the most part positive – provided that new workforce skills can be developed rapidly in their own sectors and in the labor market more broadly.

As technology increasingly takes over knowledge-based work, the cognitive skills that are central to today's education systems will remain important; but behavioral and non-cognitive skills necessary for collaboration, innovation, and problem solving will become essential as well. Today's schools and universities, which are dominated by approaches to learning that are fundamentally individualistic and competitive in nature, must be redesigned to focus on learning to learn and acquiring the skills needed to collaborate



Klaus Schwab

with others. Uniquely human skills, like being able to work in teams, manage relationships, and understand cultural sensitivities will become vital for businesses across all sectors and must become a core component of future generations' education.

Moreover, with education increasingly becoming a lifelong pursuit, businesses must rethink their role in providing for a competitive workforce. Some companies have already grasped this and are investing in their employees' continuous learning, re-skilling, and up-skilling. Yet most employers still expect to obtain pre-trained talent from schools, universities, and other companies.

Business will increasingly have to work with educators and governments to help education systems keep up with the needs of the labor market. Given rapid change in the skill sets required for many occupations, business must redirect investment to on-the-job training and lifelong learning, particularly as millennials enter the workforce, seeking purpose and diversity of experience where their predecessors sought remuneration and stability.

Business cycles naturally entail peaks and troughs in employment, and socially responsible businesses should follow successful examples like Coca-Cola, Alcoa, Saudi Aramco, Africa Rainbow Minerals, and Google in working toward mitigating joblessness and enhancing people's abilities to earn a livelihood.

Governments, too, have a role to play in creating an environment in which their citizens can reach their potential. Policymakers must use stronger metrics to assess human capital and reexamine investment in education, curriculum design, hiring and firing practices, women's integration into the workforce, retirement policies, immigration legislation, and welfare policies. Regulatory support for entrepreneurship and small and medium-size enterprises remains one of the most underused means of unleashing creativity, enhancing growth, and generating employment.

Protecting workers and consumers is critical, but shielding specific industries from the impact of new business models will not hold off the next wave of transformation. Rather than seeking to rein in disruptive businesses such as Airbnb and Uber, governments should introduce regulations that enable their sustained growth, while looking for ways to leverage their technologies and entrepreneurial approaches to boost social welfare. Such policies include online education courses for the unemployed, digital workers' insurance, virtual unionization, and tax policies geared for the sharing economy.

Unlocking the world's latent talent, and thus its full capacity for growth, requires us to look beyond business cycles and quarterly reports. The future is full of potential, but only if we are smart enough – and courageous enough – to grasp it.

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SMART COMPANIES, DIVERSE TALENT

Olivia Strzelczyk

**Diverse companies are proven to be more successful.
But differences still bring with them prejudices and mistrust.
Learning to attract and retain diverse talent is strategic for future growth.**

CITIZENS FROM the European Union (EU) are free to move to, live in and work outside their home country, as well as to benefit of the same rights and equal opportunities as citizens of the EU member country to which they move. At least this is what I thought. Although we live in a multicultural society, it is still difficult to find a decent job abroad, because in reality there are still companies that do not truly welcome diversity.

Nowadays, many people come to Europe to find safety. I feel privileged because I live a good life in my country, but somehow I want a better life too. Today, the EU marketplace is open to 28 countries and has ever more interactions between people from diverse nationalities. Consequently, profit and non-profit organisations must adapt to this trend by showing flexibility and openness to people coming from different backgrounds with valuable skills, experiences and differences.

However, I have personally been confronted with employers who still stay in their comfort zone and discriminate against potential job candidates from abroad because they do not speak the local language well enough (yet). Companies must be open to change and hire employees from other countries with unique skills, not identical ones, if they want to be productive, profitable and competitive in the worldwide economy.

Nowadays, modern companies go beyond their time zone and expand their business across countries, and thus across cultures. It's not because a company establishes offices in many European cities that it will automatically become internationally successful. Its

employees will interact with clients from other countries and cultures, therefore it cannot ignore the importance of having a multi-skilled team including expatriates.

Companies greatly benefit from hiring talent from abroad because it often brings new ways of thinking, new practices and new solutions to problems. The benefits of cultural diversity in the workplace are:

Increased creativity and innovation.

Expatriates can analyse issues and suggest points of view from a different perspective, and thus bring different ways of solving problems, which is perhaps harder to achieve when employees are from the same culture. Expats can also have different ideas and marketing approaches that will appeal to the customers in the target markets.

Increased flexibility and productivity.

The EU market has evolved, especially after the largest enlargement in the early 2000's, and companies need foreign expertise and language skills. Expatriates can gather and provide sufficient information about local customs and laws from their respective country, and they also adapt quickly to new situations; thus, they can meet the needs of new potential customers.

Increase a company's reputation and profitability.

Expatriates boost the service offered to customers in your target market as they also speak their native language.

Therefore customers feel more comfortable and are more likely to do business with your company if their contact person comes from the same country.

When differences still mean stereotypes and prejudices

It is favourable to have people with different qualifications, backgrounds and experiences in the same work environment. Nevertheless, diversity can also have negative effects on a group since it can lead to a series of problems.

Miscommunication: differences in opinion and language barriers between colleagues can result in confusion, frustrations or conflicts, and weaken the team spirit and development of the company.

Misinterpretation: prejudices about people of different backgrounds can affect interactions and lead employees to misinterpret actions or behaviours and jump to wrong or false conclusions.

Resistance to change: employees who refuse to adapt to changes and new ideas in their workplace will prevent themselves from changing their perceptions about the others and making mentality progress.

Cultural diversity: how to increase it in the workplace?

Successful companies include - and do not exclude - cultural diversity

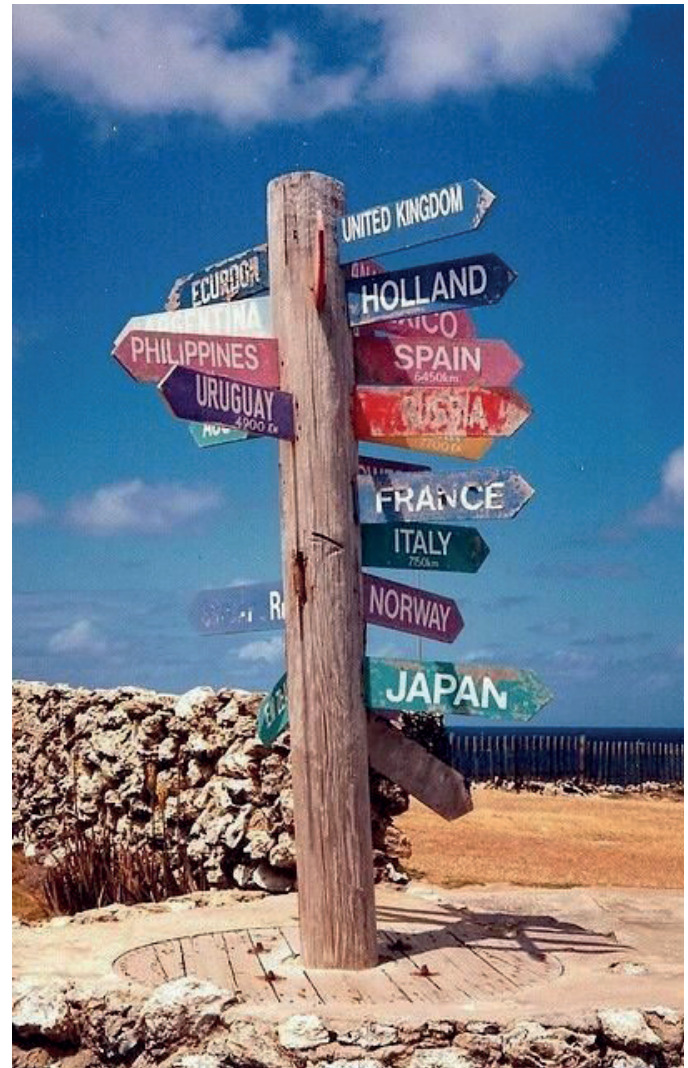
Smart employers understand that a 'closed' environment can have a negative impact on their employees' involvement in the organisation and also on their business profits. Therefore, their Human Resource professionals should modify their recruitment and hiring practices to attract the best international talents and effectively manage diversity in the workplace.

Provide a sensitivity training to develop 'cultural competences'

Encourage employees to effectively communicate with people across cultures who look, act and think differently from them. This ability to better understand each other will develop into appreciating each other, and by embracing everybody's differences and strengths, remember that it can only boost the business.

Integrate English as an additional corporate language

Our world has become smaller and ultra-connected, and in order to interact with these connecti-



ons, we must integrate a common language for effective communication. Chris Pyak, Director of *Immigrant Spirit*, is a recruiter of international talents for companies in Germany. He explains the importance for companies to introduce English as the additional corporate language. Companies will see a return on investment if they offer English language courses for its staff who wants to learn or improve their level, and the local language course for the expats, who usually like the challenge of learning a new language.

A diverse workforce can only be a win-win combination for everyone and bring back a new strong economy in Europe. As Chris mentions, there are few objective obstacles for hiring you in English and provide training to learn the local language on the job. There are obstacles in people's minds only. Europe has opened its borders to 28 countries. Have employers opened their companies' doors to more diversity? Are they ready to make their business more sustainable?

«Competition is key to a functioning Single Market»

Interview with **Margrethe Vestager**,
European Commissioner for Competition

SINCE COMING AT the top of Competition, one of the EU's most important and delicate DGs last November, Margrethe Vestager has interpreted her role with energy and with a penchant for effective communication. From her native Denmark, she has now taken Brussels by storm, becoming one of the most talked about and consequential regulators in the EU. *The New European* met her in her office in the Berlaymont building to know more about her and discuss how enforcing competition is a fundamental tool in the functioning of the EU Single Market: it not only protects the customers, it also favours innovation and growth.

Competition is seen as the main tool of the EU to watch over the correct functioning of the single market. Why is it so important?

One of the main reasons we invest so much in enforcing our competition law is because competition is not a natural state. You have to insist, because otherwise there is a risk that the market will backlash into monopolies, duopolies, cartels... Such an evolution would not be fair. We have three objectives in our work: to have affordable prices, good quality and innovation. And to have that, you need a number of businesses actively to compete on the market place. After all, the single market is one of the single, most important and best functioning issues about the European Union, because so far it has brought prosperity to so many people and it will still be an engine of jobs and growth. We need to allow it to keep its role.

Google, Gazprom, General Electric, Hollywood movie studios... Since your coming at the head of competition, you have taken upon an impressive list of companies. Some critics, both in the US and the EU, say that competition and an-

titrust probes are politically motivated, a drag to business and protectionist in nature. How do you respond to such criticism?

First of all, I take the critics very seriously, because I think it is very important to actively advocate for competition. But I also disagree with the three views, therefore I want to contradict them. If you go through practice, you will find that we work on a case-by-case basis, which is always neutral, based on facts and has to stand up in court. Therefore, our work cannot be political, because then everyone else would look for ulterior motives; it cannot be protectionist, because that is all against the concept itself of what we do; and it cannot, on the long run, be a drag on business, because every business profits from a well-working competitive market. Especially because the business-to-business part of the market is very important. If we have, as we have seen, auto parts markets being cartelised, that is a drag on car producers and consumers. Of course we do whatever we can in order to keep the short-term red tape on the businesses who want to merge. Our constant inquiry is very important because the huge majority of businesses work by the books, and they know we are there to catch the few ones who don't work by the book.

Before coming to Brussels, you had an impressive and swift career in national Danish politics. The move to Brussels can seem a bit of an abrupt change: how has your political position in your native country inspired you in your regulatory job?

There are two aspects I would like to address: the first one is that I have been a legislator in different roles for almost twenty years, and I have reached a point where I have realised that maybe we should



legislate less and implement more, because it requires a lot of political leadership also to get things implemented. It may not be as visible or as gratifying, but it is as important. Because, as I have experienced myself, there is a risk, when a law is passed, that politicians think that it is it and move on to the next issue. There are still so many beautiful pieces of legislation which have not been thoroughly implemented, before new pieces of legislation are put on top. It is a great barrier keeping citizens and companies from understanding how everything works: there are so many rules that sometimes you have no chance of knowing whether you are right or wrong. I have this urge of actually working with the legislation we already have instead of constantly adding on.

My second point is that being elected, representing people who put their trust in you, is probably the finest thing that I have ever experienced. It is very fulfilling that people would say, 'you carry my voice for the next four years'. In my job I try to bring that culture.

Your position has a rare luxury in the EU Commission's environment: it consists more of applying regulations than in drafting and passing new ones. Does it make your job less political than others?

Yes, in some respect it does. In the job to enforce competition law it is crucial to be neutral based on facts, impartial and impeccable in our procedures. And that of course cannot be politicised. The values that we build on, they come all the way from the EU Treaties. And the Treaties are political, even if in a different way than day-to-day politics: they are about fairness, equal treatment; values everyone can recognise as their own. And in protecting them, we play a role to enforce rules that were politically decided a long time ago.

Second, there is another side of the job where I can take some of the insights of the different markets, such as transportation, energy production, telecommunications or other digital services, and use those insights when we discuss and create the pro-



Commissioner Vestager while reading *The New European*

posals for digital single market, energy union, capital markets union. This is more political, because it is a way to answer and to put meat on the bones on our core priorities.

The rapid growth of internet and technology companies puts a challenge to regulatory bodies all around the world. Indeed, how is it possible to regulate on such sectors, constantly innovating and changing their shape?

I think it is very difficult, because they are fast moving. Therefore, if you want to regulate, you must be extremely careful and know what you are doing, so that you are not regulating something of the past, while putting barriers to new things happen-

ing. Nevertheless, I think that even when it comes to businesses in sectors that are hypermodern, some of the things we are looking for are very old school: it is about greed, wanting to make more money that you could by doing it in the normal, competitive way. So, there are still a lot of merits in our competition law as such, because there are only so many variations of human behaviour.

A common concern about US technology giants is that their dominance underlies a weakness on the part of the EU to be equally innovative. What is, according to you, the reason behind this difficulty? And how does your work in Competition address this unbalance?

One of the reasons why a number of American companies has become dominant or very big in a European context, even more dominant in the EU than they are in the US, is the fact that they have been able to deliver to Europeans something they really want. When I ask my three daughters why they use Google, they simply answer 'Because it is the best'. They do not say, 'It is an American company and we love everything American'.

I think there is a challenge for European companies to keep innovating and presenting their products to the customers, and for us to enable them to do so. If it is possible for any company to foreclose competition by making it impossible for new entrants to present their innovation to customers, then it will be unlikely to have a new European or even US company in the field. It is fundamental to keep the market open for new innovative products that would like to get the attention of producers.

If ten or fifteen years ago we had been discussing about these same issues, there would have been other companies concerned. We tend to forget, as I do, that the world has moved on and it will keep moving on, as long as we address the basis that it is possible for people to enter the competition.

At the end of your mandate, what would you like your legacy to be? And what will you consider as a success?

It is still very early to judge, but what I am pursuing in the cases with my staff and the services is that Europeans might experience that Europe has become a bit fairer: where it is easier to start a business, launch a product and try to make it. I believe that fairness and equal treatment are the fundamental values of our Union.



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